

[H.N.S.C. No. 109-35]

**ARMS EXPORTS TO THE PEOPLE'S RE-
PUBLIC OF CHINA BY MEMBER STATES
OF THE EUROPEAN UNION**

JOINT HEARING
BEFORE THE
COMMITTEE ON ARMED SERVICES
MEETING JOINTLY WITH
**COMMITTEE ON INTERNATIONAL
RELATIONS**
[Serial No. 109-80]

HOUSE OF REPRESENTATIVES
ONE HUNDRED NINTH CONGRESS
FIRST SESSION

HEARING HELD
APRIL 14, 2005



U.S. GOVERNMENT PRINTING OFFICE

24-312

WASHINGTON : 2006

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**ARMS EXPORTS TO THE PEOPLE'S REPUBLIC OF CHINA
BY MEMBER STATES OF THE EUROPEAN UNION**

HOUSE OF REPRESENTATIVES, COMMITTEE ON ARMED
SERVICES, MEETING JOINTLY WITH COMMITTEE ON
INTERNATIONAL RELATIONS, *Washington, DC, Thurs-
day, April 14, 2005.*

The committee met, pursuant to call, at 9:05 a.m., in room 2118, Rayburn House Office Building, Hon. Duncan Hunter (chairman of the Committee on Armed Services) presiding.

OPENING STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE FROM CALIFORNIA, CHAIRMAN, COMMITTEE ON ARMED SERVICES

The CHAIRMAN. Good morning, and welcome to this joint hearing of the Committee on Armed Services and the Committee on International Relations.

Although we work very closely together, it is rare for us to meet jointly. But because the European Union's plan to lift its embargo on arms sales to China crosses into areas that both committees care deeply about, Chairman Hyde and I thought it was important for the committees to review this issue together.

So I want to thank Chairman Hyde—Henry Hyde, one of the giants of Capitol Hill, and a guy who I think history will consider to be one of the great intellects and one of the great leaders of this body.

I want to thank him for being with us and joining in this hearing, and also thank my partner on Armed Services Ike Skelton, the gentleman from Missouri, and the ranking minority member on International Relations, Tom Lantos, for all the work that they have done in this area. And I look forward to their comments as we get started.

So, folks, thanks for being here.

Welcome to our witnesses from the Administration.

And with that, let me turn this over to Chairman Hyde for his opening statement. After which, we will say a thing or two.

Chairman Hyde. Thanks for being with us, Henry.

STATEMENT OF HON. HENRY J. HYDE, A REPRESENTATIVE FROM ILLINOIS, CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

Chairman HYDE. Thank you very much, Chairman Hunter, for your extravagant introduction. I really appreciate it, although I do not deserve it.

Permit me to thank you and the members of the Armed Services Committee for your hospitality in hosting our joint hearing today.

I also want to thank our witnesses for their participation in our hearing.

Beyond the war on terrorism and the proliferation of weapons of mass destruction, I think we will look back on the question of how we deal with China as one of the most important issues of our time.

Of course, the choices are China's to make, but other countries, including the United States and our friends in Europe, can have a great influence in encouraging and helping to shape China's choices, just as we did in bringing about a peaceful end to the tyranny of the former Soviet Union and its hold over Eastern Europe.

The national security stakes for our country are significant on two levels. The first concerns stability in the Far East. Our armed forces, in the extensive defense commitments we have throughout that region, have been decisive in ensuring the development of a peaceful and prosperous region since the end of World War II.

There is near-unanimity in our country that future peace and prosperity depend on the development of democracy in China, and not on a military buildup by China that threatens its neighbors and seeks to challenge the U.S. military presence in the region.

Into this sensitive area comes a discovery that our European allies have been aiding China's military buildup through an assortment of arms deliveries.

They hasten to add that their arms transfers imply no threat to our security interests because they do not include the missiles fitted on Chinese attack aircraft or the torpedoes stowed on Chinese submarines, but only the engines that power these systems and the electronics that guide their missions.

Few, if any, Americans can grasp the logic of such explanations, but we have no difficulty understanding that this is a policy designed for unvarnished commercial purposes.

It is also the latest manifestation of a misguided European security policy championed not by all Europeans, but by a few vocal governments who believe it is Europe's destiny to balance the interests of the United States around the world; all the more so in instances where there is money to be made.

How ironic that this issue should come to a head during the President's recent trip to Europe, the first of his second term, in which he held out that hand of cooperation on global security matters after several years of public sniping from some of our European allies.

In this respect, I hope the record of our hearing could reflect the great praise due to the President for the clarity and determination in which he made our country's concerns known, just as we asked him to do when adopting H. Res. 57 on the eve of his visit.

The second level affecting our national security interests involves a broader question of great importance. It concerns the kind of transatlantic relationship we will have with Europe in the future and whether it will continue to be characterized by intense defense industrial cooperation and transfers of sensitive military technology.

Despite perennial complaints that our export control and technology access policies are too stringent, it is fair to say that European governments and their firms have benefited enormously over

the years from the relatively open policies which our government has followed.

This is evident with respect to our abundant sharing of military technology with the North Atlantic Treaty Organization (NATO) and NATO-member governments through hundreds of cooperative research and development programs and licensed technology transfers to the European defense industry.

It is also evident in the open foreign investment environment we have maintained in the U.S. for European companies who today own or control an unprecedented number of American firms. As a consequence, they have gained a steadily increasing share of the Department of Defense procurement budget.

And it is equally evident in our government's policy of routinely waiving by America the requirements in order to permit European sales to the Department of Defense, even while we say nary a word about offset policies which require American firms to transfer technology and production to Europe as the price for doing business over there.

The proportionality of benefits to both sides of the Atlantic is reflected partly in the contributions each side makes to military research and development (R&D).

Historically, U.S. Government spending on military R&D has eclipsed European spending by several orders of magnitude. The U.S. is the world leader in military R&D, and today spends about six times as much as the United Kingdom, France, Germany and Italy combined.

This disparity permits Europe to keep pace with the results of U.S. military R&D even while it channels resources into duplicative systems designed to compete with U.S. systems, such as the \$3 billion Galileo navigation satellite program, into which China has also been invited to take part.

Without a doubt, our defense cooperation policies have not been motivated merely by largess, but also involve calculations about mutual benefits to our own country and U.S. companies.

But for many years, the overriding calculation about benefits to our country has been the importance of maintaining and expanding where appropriate the defense industrial ties that provide an important part of the fabric of our broader transatlantic relations.

However, European arms sales to China now raise fundamental questions about whether defense industrial cooperation with Europe is becoming a national security liability for us.

I was somewhat reassured by Secretary Rice's comment during her recent trip that she found Europeans open to our concerns. However, I am left with the impression that prior to her and the president's intervention, for most of the past 12 months, European reaction to our concerns has generally been one of indifference, and that European arms technology continues to flow to China even while the E.U. debates our concern.

In the final analysis, it will be our European friends who determine the kind of trans-Atlantic relationship we have in this area by how they resolve the issue of arms sales to China.

In the meantime, it is incumbent upon the Congress to continue to emphasize that it will not be possible for Europe to have it both ways on such a grave matter.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Chairman, thank you.

And I would now turn to the very distinguished gentleman from California, Mr. Lantos, for any statement he might want to make.

**STATEMENT OF HON. TOM LANTOS, A REPRESENTATIVE
FROM CALIFORNIA, RANKING MEMBER, COMMITTEE ON
INTERNATIONAL RELATIONS**

Mr. LANTOS. Thank you very much, Mr. Chairman.

And let me, at the outset, welcome Secretary Burns. This is his first testimony before either of our committees. He has represented the United States with extraordinary distinction as our NATO ambassador and in other important posts. And I know we all are delighted to have him here.

Mr. Chairman, this extraordinary hearing involving two committees of the House is testament to the strong and unified position the Congress takes toward seeing that the European Union refrains from escalating its arms sales to China.

Our nation's security interests in the Asia-Pacific region, including the national and economic security of our friends and allies in the region, are of paramount importance.

It was with this in mind that recently I undertook a serious and extensive visit to North Korea, China, Hong Kong, Taiwan and other places.

Though their perspective may have differed on many issues, the leaders with whom I spoke were all agreed that regional stability is a desirable and necessary goal.

While the Asia-Pacific region at the moment remains calm compared to other parts of the world, this calm can be deceiving.

We have tens of thousands of troops deployed in Asia. Their security is directly threatened by the European Union's professed desire to lift its ban on high-technology arms sales to the People's Republic of China.

As frightening as it is to contemplate, American armed forces may one day be deployed in the Taiwan Straits to defend the island nation from invasion from mainland China. And if Paris, Berlin and Brussels have their way, American soldiers may very well be facing the latest in high-tech weaponry manufactured by our so-called allies in Europe.

It is in this context that the European Union's current deliberations on lifting its arms embargo are so outrageous.

The United States liberated the nations of Europe during World War II, including France and Germany, at an enormous cost of American lives.

The leaders who now advocate lifting the arms embargo to China should go down to the Normandy beaches, where they will see endless rows of snow-white marble crosses and Stars of David representing the lives lost by young Americans to give Europe its freedom.

For this generation of European leaders to turn their backs on American national security interests and to consider opening the floodgates of weapon sales to the People's Republic of China shows that they have truly lost their moral compass and all historic memory.

More than 15 years after the Tiananmen massacre, the key reason for the imposition of the arms embargo, China's horrendous human rights record, remains unaltered. The only thing that has changed is China's dramatically increasing military might and consequent threats in the region.

In March, Mr. Chairman, the European Union sent a high-level delegation to reassure us that lifting the embargo would do no harm. I would have found their rationalizations laughable had they not been so outrageous.

They argued that lifting the embargo was merely symbolic, and that they will continue to restrict most arms sales to Beijing, even if the ban is lifted.

Mr. Chairman, I simply do not believe this assertion.

If there is to be no real change in export policy, as the European envoys argued, then why are they in such a hurry to get rid of the embargo?

They also claim that they will strengthen their voluntary code of conduct. Now, there is a relief, Mr. Chairman. And I think we can all rest a little easier knowing that this voluntary code will be strengthened from a paper tiger to a straw man.

If there is money to be made in a troubled part of the world through arms sales, European arms manufacturers are the first through the door to make that sale.

I believe that the Europeans are so besotted by the siren song of vast Chinese markets that many of them would embrace the heirs of Tiananmen, declare that mistakes were made and jettison any sanction, symbolic or otherwise, that affects Beijing.

There are some hopeful signs in the press that the solid wall of opposition from the Congress and the Administration have made the European Union reconsider its case to lift the embargo. That and the spectacularly aggressive anti-secession act passed by the rubber-stamp Chinese parliament to intimidate Taiwan apparently convinced even the shameless French that now was not the best time to appease the Chinese.

We must keep the pressure on the E.U. to maintain and to strengthen the embargo. Europe's leaders must understand that there will be serious ramifications for the transatlantic relationship if they fail to do what is right and just and if they fail to recognize that their national security interests are intertwined with their all-important ally, the United States.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The distinguished gentleman from Missouri, Mr. Skelton.

**STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE
FROM MISSOURI, RANKING MEMBER, COMMITTEE ON
ARMED SERVICES**

Mr. SKELTON. Mr. Chairman, thank you. And I compliment you on calling this hearing.

And I welcome Chairman Hyde and Ranking Member Lantos for joining here today at this very, very important topic, because it relates both to the military modernization in China, and our defense relationships with our allies.

There is no doubt that China's modernizing its military. The official Chinese military budget has risen by double digits in recent years, most recently by 12.6 percent in 2005.

Although its overall level of spending is still low compared to ours in this country, China is focusing its investments on capabilities that could pose a greater risk to our forces in any conflict in the Taiwan Strait and to our regional allies.

In January, Mr. Chairman, I returned from a trip to China with nine of our colleagues, most from this committee. Randy Forbes and I were honored to lead the delegation to China.

Mr. Chairman, I came back with the impression that the Taiwan Strait is the most dangerous place on this Earth. Events of recent weeks have only deepened that feeling.

China's anti-secession law has risked upsetting the delicate balance in the Strait. And by the way, while we were there, they told us in no uncertain terms they were going to pass that law and surely they did.

There is great potential for miscalculation and conflict in the Taiwan Straits, and I am concerned about it. We do not believe, however, that armed conflict is a foregone conclusion. China itself has taken some positive steps. China's economic growth increasingly ties it to both Taiwan as well as to us. There has been cooperation between our two nations in the Global War on Terrorism.

Most significantly, China has an important role to play in a negotiated outcome to the North Korean nuclear crisis, and we must reach one.

We and our allies have a responsibility to do all we can to try to maintain stability in the Asia-Pacific region. That means active diplomacy to dampen cross-Straits tension.

For the United States, it means being conscious that our actions may have an effect. We must enact responsible export control policies that recognize that in today's world many commercial technologies can contribute to a nation's military strength.

Our European allies have been our partners for some 50 years, but the prospect of lifting the arms embargo on China not only risks destabilizing the delicate balance in the Taiwan Straits, it could also potentially put American forces at risk in a future conflict. That is a conflict we hope never to fight.

In my view, lifting the arms embargo now, in light of the anti-secession law that China passed, will increase the risk of miscalculation and heighten tensions. Its lifting could have a real effect on the military balance in the region and would certainly have a political effect.

Mr. Chairman, I am pleased that the European Union seems to be reconsidering its plans for a near-term action. That kind of restraint needs to be maintained for the sake of our security and the security of the entire region.

So thank you again, Mr. Chairman, for calling this hearing.

The CHAIRMAN. I want to thank the gentleman, and thank my colleagues for this very eloquent expression of the strong opposition to the lifting of the current arms embargo on China.

And so I am going to make my statement very short. And that is simply that lifting this arms embargo should cause us to reconsider our entire security relationship with Europe. A reliable alli-

ance cannot be sustained when some of the members are engaged in arming potential adversaries.

So I hope the Administration understands that. And I can only hope that the European Union and its members take heed and understand the strength and the depth of the opposition to the lifting of this embargo in this body.

We are joined today by some very distinguished members of the Administration. We have the Honorable Nick Burns, Under Secretary for Political Affairs, Department of State; the Honorable Peter Rodman, Assistant Secretary for International Security Affairs, Department of Defense; and the Honorable Peter Lichtenbaum, Acting Under Secretary for Industry and Security, Department of Commerce.

Gentlemen, thank you for being with us today. We appreciate your presence.

Before we go to the witnesses, though, I want to make just a couple of housekeeping comments for members.

After the witnesses complete their statements, I will recognize those members present at the gavel, according to their seniority on the respective committees. And we will alternate between parties and then committees.

In order to be fair to all sides, I want to continue alternating between Democrats and Republicans and committees for those members who arrived after the gavel.

And we are going to try to recognize the members in the order in which they arrive.

Each member will get five minutes for both questions and answers, so I would ask our witnesses to tailor the brevity of your answers to those time slots so that we can be fair and all members will have a fair opportunity to talk to you.

We have got a lot of members on both committees, so we want to keep questions and answers to the point.

Finally, several of us have received classified briefings on related subjects over the last several weeks, and I just want to remind all members that all the information they received in those classified briefings is classified and you cannot discuss that at this particular hearing.

So having said that, Under Secretary Burns, thank you for being with us this morning. And this is obviously an issue of enormous importance to us.

And the floor is yours, sir.

STATEMENT OF HON. R. NICHOLAS BURNS, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS

Secretary BURNS. Chairman Hyde, Chairman Hunter, distinguished members of the committee, thank you very much for this opportunity to be with you this morning as we discuss the critical issue of European Union arms exports to China.

This is my first testimony before both of your committees. I have just taken office a month ago, so I will be pleased to have any conversations you wish in the future on this or other critical foreign policy issues.

This particular issue is of central importance to the United States, and particularly regarding our interest in the Asia-Pacific

region. And it intersects with our relations with many of our most important allies in Europe, Mr. Chairman, as you have just noted.

And that is why we have made our position clear to all parties: The United States strongly opposes the European Union's lifting its embargo on arms exports to China.

We believe that lifting the embargo would be detrimental to peace and security in the Asia-Pacific region. We think it would send the wrong signal, given the continued serious human rights abuses taking place in China itself. And that is why we have maintained our own embargo on China since the 1989 Tiananmen Square massacres, and why we will continue to urge the European Union to maintain its embargo.

One of the central issues in this discussion is security in the Asia-Pacific region, where the United States has served as the guarantor of peace and stability since the close of the Second World War. Maintaining that stability is in the clear and vital interest of both the United States and of Europe.

Today we see China continuing a military buildup which is viewed as threatening by its democratic neighbors. We believe that the E.U.'s lifting of the embargo would negatively effect regional stability as well as American security interests.

As we stated in our September 2002 National Security Strategy report, "While U.S.-China relations are an important part of our strategy to promote a stable, peaceful and prosperous region there are, however, areas in which we have profound disagreements. Our commitment to the self-defense of Taiwan under the Taiwan Relations Act is one."

Our commitments on Taiwan are an area of particular concern when we consider the European Union arms embargo. Simply put, we do not believe cross-Strait relations would improve if China gains access to advanced weaponry.

We are also concerned about protecting key U.S. military technologies that we share with the European allies should the E.U. lift the embargo.

Likewise we are concerned about China's record of proliferating weapons to Iran, to Sudan, to Burma and other states of concern.

President Bush was in Brussels in February, as the chairman noted. He was meeting with European Union member states and with NATO. And he said, "There is a deep concern in our country that a transfer of weapons would be a transfer of technology to China, which would change the balance of relations between China and Taiwan."

Lifting the embargo now could also be seen as an endorsement of China's recent anti-secession legislation, which codifies in law the use of nonpeaceful means, under certain circumstances, to prevent Taiwan's independence.

While our opposition to the E.U. lifting its embargo is firm, it should also be seen in the context of our overall relationship with China.

During his visit to Beijing in 2002, the President stated that, "China is on a rising path, and America welcomes the emergence of a strong, peaceful and prosperous China."

Secretary of State Rice reaffirmed that view recently in Tokyo, when she said that, "We want China as a global partner, able and

willing to match its growing capabilities to international responsibilities.”

Economic liberalization and increased trade have opened a place for China in the international community, and we strongly support China’s integration into that rules-based community—not just economic institutions, but diplomatic, peacekeeping, relief and reconstruction ones as well.

China is also playing a vital role in hosting the six-party talks on the North Korean nuclear issue, and we need China to remain engaged there to bring pressure to bear on the North Koreans to return to those talks, where they have been absent for nearly a year.

Finally, I would note that the United States has a flourishing commercial relationship with China despite the fact that we maintain a strict embargo on military sales to China. This, in itself, is an important fact for our European allies to appreciate.

As our relationship with China develops, however, we remain concerned by its human rights record.

The United States and the European Union embargoes were imposed in response to the Tiananmen massacre in 1989. And our government has stated repeatedly that we view these two embargoes of the United States and of Europe as complementary, and that the underlying reason for their imposition remains valid.

As the State Department said in 2004 in our Human Rights Report, the human rights record of the Chinese government remains poor, and serious abuses are continuing. According to estimates by nongovernmental organizations, hundreds of persons remain in prison as a result of the Tiananmen demonstrations.

And thus we remain very concerned about ongoing suppression of fundamental liberties such as freedom of expression, religious practice and press, and judicial abuses such as arbitrary detention and torture.

Given these concerns—security, proliferation and human rights—we have made our case vigorously to the European Union member states that they should not lift their arms embargo on China.

In my judgment, there were inadequate senior-level consultations with us by the European countries before they embarked down this path in early 2004. But we quickly moved to engage the Europeans and President Bush, Secretary of State Rice, former Secretary Powell and Secretary Rumsfeld have all raised this issue in abundantly clear terms with their European counterparts.

During her first visit to Brussels just two months ago, the Secretary of State raised this issue with the NATO allies. And she said, we have to worry about the military balance in the region and that we have concerns about technology transfer.

We have conducted joint State Department-Defense Department talks in 12 E.U. capitals to ensure they understand our concerns. We have made intelligence-based presentations to all the E.U. member states in Brussels.

I would like to thank Chairman Hyde and Chairman Hunter. I would like to thank the Congress for your resolutions that you have passed opposing a lifting of the arms embargo.

I can assure you from my many discussions with European governments that Congress' voice has been heard. This has been a powerful and compelling argument with the European Union.

And we especially appreciate the strong bipartisan support for the policy by the members of both of the committees present today.

At every opportunity, we have given European governments a strong and consistent message that lifting the embargo would be a direct challenge to vital U.S. interests, and that doing so would undermine efforts to bring China's human rights practices into compliance with international standards.

We have also received valuable support on this issue from the government of Japan, which shares our concerns about the consequences of a lift.

One of the European responses to our arguments has been that it would substitute for the embargo a package of transparency measures, including improvements to the E.U.'s code of conduct on arms transfers.

Our response is that there is no enforcement mechanism or objective measurement to ensure that a code of conduct would serve as a restraint. We welcome improvements in the code of conduct, but the fundamental nature of the code would not change.

In 2003, E.U. governments applying the code of conduct approved defense exports to China worth 416 million euros. In our view, changing the code is not the answer; maintaining and strengthening the embargo is the answer.

I believe our efforts—those of the Congress and those of the Administration—are beginning to have a positive impact.

When the E.U. began considering lifting the embargo, most European commentators believed that a lift was inevitable and would be concluded by summer of 2004.

Instead, we made U.S. security and human rights concerns known to all the E.U. member states, and the E.U. has now taken the time to consider the larger implications of lifting the embargo.

We do not now believe that the E.U. is close to a decision to lifting the embargo itself. But we realize that we must keep this issue at the forefront of our agenda with the E.U. in Brussels and with all the E.U. governments, and we intend to do just that.

The question remains, in our minds, why some in the European Union still support lifting the embargo, faced with the arguments put forward by the United States government, by the Congress and by Japan and others.

Some E.U. states were supportive because they hoped this would result in improved access to the Chinese commercial market, whether or not they actually increased military sales to China.

Other E.U. governments have not been openly supportive of lifting the embargo but have not actively opposed it inside the E.U. council itself. These states have said that they have not sold military items to China in the past and have no intention of doing so, even without an embargo, in the future.

Many of these states share our serious concerns about China's human rights record. Originally, the lift was presented to us as a political gesture, a part of the E.U.'s agreed policy of building a better relationship with China. In fact, some member states have

argued that lifting the embargo would not affect their policy of denying defense articles to China.

We believe the E.U. has not made a compelling case for why the embargo should be lifted, and our government is united in the belief that there are compelling national security reasons for maintaining the embargo.

After all, we and the E.U. have a shared interest in maintaining regional peace and security in Asia and the Pacific, and in promoting human rights in China.

And so our view is that the E.U. should seek to align itself to this mutual interest, strengthen our export control regimes, so that we can limit sales to China that put those interests at risk.

What is now abundantly clear is that there is an urgent need to undertake a strategic dialogue with the European Union on this issue.

And we will soon begin—in fact next week—a dialogue with the European Union where we will describe our interests in the United States of America as the guarantor of peace and security in Asia and the Pacific region and the Straits of Taiwan itself.

And that strategic dialogue is long overdue. The E.U. has agreed to have it, and we think it might assist in resolving this dispute.

This will not be a negotiation over the terms for lifting the embargo, but it will be a means of ensuring, among other goals, that the E.U. members understand the real dangers to regional security that lifting the embargo would pose.

It is also an opportunity to discuss ways that we can strengthen and harmonize with European export control regimes so that they track more closely with United States controls.

We will include in these discussions with the E.U. our concerns about current E.U. sales of military equipment to China. Several items that have been approved for sale—including fire control radar, aircraft engines, submarine technology and maritime search radar—seem inconsistent with the E.U.'s code of conduct on military sales.

According to 2003 E.U. data, E.U. members approved 159 licenses for exports to China of items on the common military list. These items were worth almost double the value of the licenses from 2002.

The fact that approvals of licenses for defense exports to China greatly outnumber denials adds to our concern that the E.U. needs to strengthen its existing regime.

And, of course, we will also encourage the E.U. to strengthen its human rights dialogue with China. China continues to hold hundreds of Tiananmen-era political prisoners. It continues to restrict fundamental liberties, including freedoms of expression and religious practice.

The circumstances that led to the imposition of the embargo some 16 years ago need to be honestly addressed by the Chinese government.

So, Chairman Hyde, Chairman Hunter, in conclusion, I would like to underscore that the careful consideration being given to the implications of a lift is a significant milestone for the European Union itself.

Taking U.S. concerns into account before making a decision would be a direct affirmation of what President Bush asked for when he went to Brussels in February, and that is a new era in transatlantic relations. It is our strong hope that the European Union will choose this path.

We welcome the E.U. as an equal partner in promoting our shared values and the security of democratic nations around the world. Our common agenda should include engaging China to develop the security, economic and political goals in the Asia-Pacific region. And working with our allies in Japan and Europe, we believe there are means other than selling advanced weaponry to achieve those goals.

Thank you very much.

[The prepared statement of Secretary Burns can be found in the Appendix on page 61.]

The CHAIRMAN. Mr. Secretary, thank you for a very strong and concise statement.

Secretary Rodman, thank you for being with us this morning. The floor is yours.

STATEMENT OF HON. PETER W. RODMAN, ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS

Secretary RODMAN. Mr. Chairman, Mr. Chairman, thank you very much. You have my prepared statement, and what I would like to do is just highlight a few of its points——

The CHAIRMAN. And without objection, all written statements will be taken into the record.

Secretary RODMAN. Thank you.

First of all, the Department of Defense has a particular interest in this question. To us, it is not just an abstract issue of political symbolism or export control policy. It could directly affect the safety of American military personnel in the Asia-Pacific region. And our personnel are there, as we all know, to fulfill national commitments that this country has made over several decades and several administrations to help assure the security and freedom of allies and friends.

Second, Congress has mandated the Department of Defense to publish every year a report on China's military modernization. The new edition of this report will be ready, I hope, in the coming weeks.

But the message of this report over the last few years has been a sober one: China is not any longer a third world military power. In some areas, it is becoming a first world military power.

Many of us may have in our heads the image of millions of untrained Chinese peasant soldiers with leftover Soviet equipment from the 1950's. That is not what is happening now. China, because of its economic success and development, is modernizing, from the most advanced mobile inter-continental ballistic missiles (ICBMs) to supersonic anti-ship weapons.

So our job, again, in the Department of Defense, is to keep an eye on this. And we worry that China will exploit openings that it may see in Europe to seek to buy advanced technologies.

We do not expect that China is going to try to shop for aircraft carriers in Europe, but we think that China will look for technologies, for systems, for the most advanced electronics or systems of different kinds that will assist in its qualitative improvement.

Third, I want to stress something else that Ambassador Burns said. We in the United States think we have a good relationship with China, and we seek a good relationship with China. Ambassador Burns quoted the President. He quoted the secretary of state. And the secretary of defense, I can assure you, has said the same thing.

And our department has, in fact, good relations with the Chinese defense establishment. There are visits of the most senior officials. There are exchanges of officers; interaction of many kinds. And we believe that this kind of growing military-to-military interchange is a positive thing.

But, of course, we try not knowingly to do something that enhances their military capability. And, in fact, we are mandated in that respect also by law.

But that is the message we try to convey to the Europeans: that it is perfectly possible to have good political relations with China, good economic relations with China, while drawing a line that reflects our national interests in this respect.

And so, again, as Ambassador Burns said, the message of the Europeans is that the long-term interest of peace in Asia, the long-term interest of peace globally depends not only on restraint in this military area, but it also depends on achieving a common strategic understanding between us and our European allies.

I mean, we have an alliance that goes back many decades. And it should not be difficult for us to achieve a common strategic understanding of China's rise and what it implies, what it signifies and how we should address it.

That is the direction we hope to go with our European allies. That is the purpose of the strategic dialogue that Ambassador Burns will undertake. And that is the outcome we hope we will achieve from this unfortunate dispute.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Rodman can found in the Appendix on page 55.]

The CHAIRMAN. Thank you very much, Mr. Secretary.
Secretary Lichtenbaum.

**STATEMENT OF HON. PETER LICHTENBAUM, ACTING UNDER
SECRETARY FOR INDUSTRY AND SECURITY, UNITED STATES
DEPARTMENT OF COMMERCE**

Secretary LICHTENBAUM. Chairman Hunter, Chairman Hyde, distinguished members of the committee, thank you for the opportunity to testify here today on the E.U. arms embargo against China and the United States position regarding the E.U.'s possible lifting of that embargo.

As the previous witnesses have made clear, the Administration is very concerned about the national security implications of sensitive technology transfers to China, and is working hard, therefore, to continue to convince the E.U. member countries to refrain from lifting the arms embargo.

To avoid unnecessary repetition, I will simply say that I fully share the views of Ambassador Burns and Assistant Secretary Rodman, and I commend those views to the committees.

I do want to take a few minutes to emphasize that the Administration's opposition to the lifting of the E.U. arms embargo is consistent with U.S. policy toward the export of sensitive items and technology to China.

Indeed, the United States has an extensive body of law, regulation and policy in place to control such exports and prevent diversion to Chinese military end-uses.

The United States, of course, maintains its own embargo on sales of arms to China. The organization that I lead, the Commerce Department's Bureau of Industry and Security, is responsible for implementing dual-use export control.

The dual-use commodities are commercial items, such as computers, that while not designed for use as weapons, delivery systems or for terrorist purposes, have the potential for these types of misuses. As Congressman Skelton noted, commercial items can contribute to other countries' military strength.

Sensitive dual-use items are on the commerce control list, which tracks but also goes beyond U.S. commitments under the multilateral export control regime. You might note that the Europeans are members of these regimes and maintain the same control lists. Items are included on these lists after full coordination with the interagency community, including the Departments of State, Defense and Energy.

We work with the interagency community to promote and defend the national security of the United States. Our principal goal is to ensure that direct exports from the United States, and re-exports of U.S.-origin items from third countries, are consistent with national security and foreign policy interests. Of course, we also want to avoid unnecessary regulatory burdens on U.S. exporters so that we do not impede the flow of legitimate trade.

The ultimate goal is to prevent U.S.-origin items from falling into the hands of rogue nations, terrorists and those who might use the goods and technologies against us and our allies.

Of special importance for this hearing, under current law and regulations almost all exports and re-exports of dual-use U.S.-origin items to Chinese military end-users or end-uses require license.

The Commerce Department and its interagency partners carefully evaluate proposed exports of dual-use items to China on a case-by-case basis. We look at the type of item involved and the proposed end-user and end-use.

Under our regulations, for example, we do not issue licenses for sales to China if the item or technology would make a significant contribution to China's electronic and anti-submarine warfare, intelligence gathering, power projection or air superiority.

Further, and more generally, the Commerce Department, under this Administration, does not approve and will not approve licenses for military end-users or end-uses within China.

In the licensing process, we evaluate also the risk of diversion of the item to military or proliferation-related end-uses.

If there are questions about the bonafides of the end-use and the end-user, we conduct pre-license checks and post-shipment checks

in order to reduce the risk of diversion for an end-use other than the authorized one.

In 2004, we reached an end-use visit understanding with the Chinese that has been very useful in mitigating that risk of diversion by providing an effective mechanism to verify the bonafides of end-users and end-uses in China.

I might add that that end-use visit understanding had been a shared objective of the Congress and the Administration for several years. We are very pleased that, under the president's leadership, Secretary Evans's leadership, we were able to reach that agreement last year.

So far, we believe that China has fully adhered to the terms of that understanding.

That concludes my remarks. I appreciate the time, and look forward to your questions.

[The prepared statement of Secretary Lichtenbaum can be found in the Appendix on page 66.]

The CHAIRMAN. Thank you, Mr. Secretary.

And, gentlemen, thanks to all of you for your statements.

And, Chairman Hyde, we will go to you for the first questions.

Mr. HYDE. Thank you, Mr. Chairman.

And I want to thank all the witnesses for their forthright statements.

I will suggest there will be additional legislative initiatives emanating from our end on this subject. And we hope you will be equally supportive of them, but we will not commit you now.

Mr. Lichtenbaum, your prepared statement says that the Commerce Department, under this Administration, "does not approve licenses for military end-users or end-uses within China." Now, this is a helpful change from the past.

Section 742.4 of your regulations states, in part, "Items may be approved even though they may contribute to Chinese military development or the end-user or end-use is military."

Why is that in your regulations?

Secretary LICHTENBAUM. Well, Mr. Chairman, thank you for the question.

I believe that regulation is one that ought to be revised. We have in process a regulation to strengthen our controls, specifically relating to Chinese military end-uses and end-users.

Under that regulation, we would require a license for export to Chinese military end-users and end-uses for all dual-use items, as well as for any other items that could contribute materially to China's military growth.

For all applications that relate to Chinese military end-use, we would clarify in our regulations that our licensing policy is a general policy of denial. That approach will further prevent U.S. exports from contributing materially to China's military growth, while avoiding unnecessary restrictions on exports of non-sensitive items that are widely available abroad.

So I believe that that regulation will respond to that concern. I believe the existing statement in the regulations does not reflect what we, in fact, do, in that we do not approve such licenses. And therefore we should clarify the regulation to reflect our licensing practice.

Mr. HYDE. You do not accept this regulation as it is written then?

Secretary LICHTENBAUM. Well, I believe the regulation says that licenses may be approved. I do not have the regulation in front of me. And therefore it gives us the discretion to approve it. We have not, in fact, been approving it, but we ought to make clear that we will not, and so the regulation ought to be changed.

Mr. HYDE. When will the new regulation be issued?

Secretary LICHTENBAUM. Well, we are about to send that regulation to the other agencies here for comment. I would expect, given the statements of the witnesses and my understanding of Administration policy, that we ought to be able to get clearance on that regulation in order to publish it in a matter of one or two months. I cannot speak for them, of course.

Mr. HYDE. All right.

One more question: Each year, Commerce makes unilateral decisions to classify several thousand dual-use commodities. And under your regulations, in such a way, they are not to be considered on the Commerce control list (CCL). And you do not generally require a license when exported to the Chinese military.

Would you provide us—Mr. Hunter's committee and my committee—with a list of the dual-use items which have been exported to the Chinese military without a license as a result of such commodity classification? Can you do that?

Secretary LICHTENBAUM. Mr. Chairman, we will certainly do our best to get you that type of list. I am not positive whether the U.S. Government data will permit the tracking of such items by end-user, in that if it is determined that an item does not require a license, then we will not have a record in our licensing system for the end-user.

But we may have that information through the Census Bureau. And if we do, we will certainly provide that information to the committees.

Mr. HYDE. Do you agree we should know what is being exported to the Chinese military?

Secretary LICHTENBAUM. Yes. Absolutely.

Mr. HYDE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Chairman.

Gentlemen, clearly, we have an interest on both committees to see to it that we do not face military technology that has been sold to the Chinese—that our young men and women do not end up facing that technology on the battlefield.

You know, I would think that the Europeans would at some point come to reason and make the same determination: that they do not want to see European technology facing young Europeans on the battlefield at some point in the future.

And you have mentioned these three areas where sales have been made: the fire control radar, air superiority technology and anti-submarine warfare technology. And I am reminded that the Chinese have bought Sovremenny-class missile cruisers, designed for one thing by the Soviet Union, and that is to kill American aircraft carriers; that they have acquired the tactical fighter aircraft production capability; and that much of this capability that they

are acquiring appears directed and focused on building up the ability to take on the American fleet.

And I guess my question is—and perhaps Secretary Burns or Secretary Rodman, you could answer this—have the Europeans had any discussion with us as to their rationale for selling fire control technology, air superiority technology or anti-submarine warfare technology to the Chinese? Have they evidenced any rationale for that, or have they had any discussions with us on that issue?

Secretary RODMAN. I believe we have raised some of these things in the past. Their argument is a lot of this is nonlethal, by their definition. They interpret the code of conduct and their own restraint as applying to weapons, and systems like radars or jet engines and so on are, by their definition, nonlethal.

The CHAIRMAN. Do they consider fire control technology to be nonlethal?

Secretary RODMAN. It may be. I am not familiar with that—whether we have discussed that particular case, but I know of others. I mean, that is obviously one of the problems that we need to raise with them because we need a much stricter standard of control.

The CHAIRMAN. Do you have a series of discussions set at this point on these issues, on these particular military technologies?

I mean, it looks like part of our problem, we have got a dual problem here: part of it is to do everything that we can to prevent this embargo from being lifted, but the other part of the problem and the challenge is to curtail what appears to be a rising tide of military exports to the Chinese, embargo notwithstanding.

So what have you got planned?

Secretary BURNS. Mr. Chairman, I would just like to say that we have had, over the last several months specifically, both out in Brussels and our contacts with the E.U. and at NATO, in bilateral discussions, a long series of talks with the Europeans about the issue that you just raised.

And when, as Secretary Rodman has said, the Europeans say they do not consider certain weapons systems to be lethal we have disagreed. We disagree with the rationale for lifting the embargo. And we are opening next week a broader conversation with the Europeans in which we will inform them of the vital national security interest that we have at stake, given our military law in the Asia-Pacific region.

But it does include discussions about specific systems. And it goes to the heart of the problem that we have: a disagreement both on the specifics of the military hardware and technology, but also a disagreement about the larger security structure that we have built since the close of the Second World War to preserve peace and stability.

So I think we are discussing two levels of interest here, and both of them are important to us.

The CHAIRMAN. You know, last, we are working with many European allies on the development and production of Joint Strike Fighter. The technology that is manifest in that program is extremely capable. And if that technology made its way to the Chinese defense industrial base it could present enormous problems for the American fleet.

Are you talking to the Europeans about the potential for curtailment of this Joint Strike Fighter partnership with European nations? Should they continue to make military sales to China? And should they lift this embargo?

Secretary RODMAN. "Curtailment" is too strong a word at this stage. I think we hope to head off a lifting of the embargo. But we have raised with them the risk that one of the negative consequences of unrestrained European arms transfers is that we would have to look at the issues of our transfers to Europe.

The Joint Strike Fighter is a very important project, and there are a lot of positive values of interoperability—I mean, there is a strong argument for that program. But this issue will complicate it, without any doubt.

The CHAIRMAN. Well, I will tell you, we see stealth capabilities reflected in that program showing up in the Chinese defense industrial base and in the products of that base.

The problems for the American fleet are enormously complicated, as you know, and we may end up with a technology-control management problem if you have European firms, which are at once working with us and availing themselves of some of our most sensitive technology and at the same time engaging in technology transfer with China of important military systems.

We may end up with a management problem of trying to police and maintain firewalls in these European concerns between what may be sent to China and what is to be exclusively a part of that partnership between the United States and the relevant European nation.

That may end up being mission impossible, and we may simply—from my perspective, that is going to make it enormously difficult for us to maintain a partnership on one hand, with extremely sensitive technology flowing to European concerns, which have another door that moves technology out to the Chinese defense industrial base.

Are you concerned about that?

Secretary RODMAN. We will have to satisfy ourselves in that respect, without any doubt.

The CHAIRMAN. The gentleman from California, Mr. Lantos?

Mr. LANTOS. Thank you, Mr. Chairman.

Let me just identify myself with your last comments. I fully concur with your observation.

I want to use my time to review the bidding and to look ahead.

It seems to me that where we are today is that the united opposition of the Administration and the Congress has persuaded the Europeans to hold back, to postpone and to delay. And I certainly do not expect them to move ahead during calendar 2005. But that is very small comfort.

In 2006, the presidency of the European Union will be held by Austria and Finland, two countries whose independence was maintained by us for two generations.

Is the Department of State making advance preparations now to ensure that Austria and Finland, in the presidency in 2006, will oppose any such lifting of the arms embargo?

Two, the Dassault Aviation of France, I understand, is holding up the sale of the most advanced Mirage jets to China pending the

lifting of the arms embargo. I would be delighted if you are prepared in open session to comment on that.

Third, my understanding is that the Germans and the French as we speak are in consultation to persuade the government in Beijing to make some cosmetic changes in human rights policy—release specific prisoners or some other gesture—which then would soften, in their view, our opposition to their lifting the arms embargo.

I would like to make it clear, as the founding chairman of the Congressional Human Rights Caucus, that such cosmetic human rights changes will have no impact on our position because our position is related not just to human rights issues, but principally to stability and peace in the Taiwan Straits.

And finally, I would like to raise a philosophical issue. In years past, what we were dealing with, as far as the Europeans were concerned, was the proper proportion of burden sharing: Are they carrying their fair share of the load?

They have long since moved away from it. And what we are dealing with now is some European countries hell-bent on undermining the military posture of the United States for commercial gain.

Now, this is an enormous strategic shift in our relationship with Europe. Years ago we had arguments as to the extent to which they were sharing a joint military burden in NATO vis-à-vis the former Soviet Union in other areas.

What this hearing is about is to prevent the undermining of U.S. national security by NATO allies.

I would be grateful, Secretary Burns, if you would comment.

Secretary BURNS. Congressman Lantos, thank you very much for your questions.

I want to start by agreeing with what you first said, and that is, I think it has been the combined attention and resolve and strong statements by the Congress, by the Administration—and by the way, by the government of Japan—which have given pause to many of the E.U. member states about whether or not they should take this step to lift the embargo.

I do not believe a decision is imminent now to lift this embargo. I remember a year or so ago confident predictions by various European commentators and politicians that the embargo would be lifted in short order.

It has not happened, because I think you have been successful, and we have been successful together in convincing them that there is a larger strategic issue at stake here, and it is peace and security in the Asia-Pacific region. It is many of the issues that Chairman Hunter just raised in some of his questions regarding specific sales of military technology to the Chinese military, to which we have objected.

So a decision is not imminent. But I continue to hear from my European colleagues that there are many countries within the E.U. that would like to proceed.

And so this issue has risen to the top of our agenda. And I can assure you it is being discussed by the president, by the secretary of state, and certainly by the rest of us at every opportunity, including this week with our European colleagues.

We are working with all the member states. You referred to Austria and Finland. The next presidency will be held as of July 1 by the United Kingdom, our closest ally.

And I would just like to say that we have had a series of very productive discussions with the U.K. and some of the other members, and I think there is an inclination to work with the United States and to listen to our concerns.

I think you are right about the human rights question. We cannot abide by cosmetic changes in China's human rights practices, because they have been so deplorable for so many years, and they have been on such a large scale and have been so widespread, from Tiananmen to crackdowns on religious freedom—all of us are aware of that—and fundamental expression, democratic freedoms.

And so our Administration is going to hold China to a very strict standard, as we should, on human rights. And I do not think we will be put off by any cosmetic changes that may or may not come about.

And finally, Mr. Chairman, I think you have asked the right philosophical question on burden sharing. We have been discussing this for a long time.

I am concerned, as a former U.S. ambassador to NATO—and I said so very openly in Brussels—I am concerned on the issue of defense spending, that many of the European allies are not keeping up their responsibilities in NATO.

The United States will spend more than double what all of our NATO allies will spend combined this year on defense. And so we are urging the European allies—and Secretary Rumsfeld has taken the lead here—to make the difficult political decisions with their own parliaments to raise defense spending, because we have major challenges we must meet together.

But I would just like to add—and I will finish on this note—that we have a strong NATO alliance; that the European allies in other ways—many of them are contributing quite a lot to our common defense and to our deployed missions, including peacekeeping missions.

We had 16 allies with us in Iraq after the invasion in 2003 and many of them still there with peacekeeping forces along with our troops. All of our allies are in Afghanistan with us; all are in Bosnia and Kosovo.

And some of the European countries—and I pay particular credit, of course, to the United Kingdom—have made substantial contributions, I think. I would like to put that on the table this morning.

And I am convinced—going to the final part of your question—that the great majority of our European allies reject the notion of some European leaders that the E.U. should make itself into a counterweight strategically to the United States.

That would be a colossal misjudgment, based on the history of the last 60 years. And time and again, the vast majority of our European allies have said no to that, and a continuation of a strong association with the United States and the NATO alliance.

Mr. LANTOS. Thank you very much.

The CHAIRMAN. I thank the gentleman.

The gentleman from Missouri, Mr. Skelton?

Mr. SKELTON. Thank you, Mr. Chairman.

There was a rather troubling article in the newspaper a few days ago, where the Chinese announced a strategic partnership with India that would include economic cooperation in areas such as information technology.

Now, at the same time our country is continuing its defense relationship with India, including going forward with the potential sale of combat aircraft.

So, Secretary Rodman, let me ask you: What is the Administration's position or approach to dealing with countries, such as India, on issues of technology transfer to China?

Secretary RODMAN. Mr. Skelton, we saw the same reports. But we have an excellent relationship with India ourselves, as you said, and that is why we are discussing joining the competition to sell them advanced aircraft.

Knowing the relationship—well, we are pleased that India and China have a normal relationship. These are two significant powers in the world, both of growing importance. And I think it is in the interest of stability that they have a decent relationship with each other.

I strongly doubt that either one of them wants to share sensitive military technology with the other. I think there is a certain wariness that has a historical basis.

As I say, we are confident that our own relationship with India is improving. And we think that is a positive thing and we are eager to do that, including in the defense field.

I trust the Indians to understand their own interest here. And as I said, we will watch this closely for the reason that you are point to. But I think economic—I mean, what we see at the moment is cooperation that seems very normal and positive.

Mr. SKELTON. Mr. Secretary, why don't you take my question under advisement, and later in the year get back to this committee? Because this deeply concerns me, and I am sure other members of the committee. Would you do that for us?

Secretary RODMAN. I certainly will, sir.

Mr. SKELTON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you gentlemen.

The gentlelady from Virginia, Ms. Davis?

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

And thank you, gentlemen, for being here.

I have the distinct opportunity to sit on Armed Services, International Relations and Select Intelligence as well as chair the transatlantic legislators' dialogue to the European Parliament. So this issue is something that I have discussed in every area, and it is one that concerns me a great deal.

So I thank both my chairmen for having this joint hearing.

I am deeply concerned about all that China is doing today. And I know that we want to have a good relationship with China, but just the same it concerns me with their large military buildup, it concerns me with those human rights violations that we have heard about already.

I had one question, and I have got to be careful. I know that China has, for instance, established a relationship with Pakistan to help them build, I think, their J-17 or something of that nature.

Yet we in the United States are going to be supplying, I believe, Pakistan F-16s.

I do not know which one of you want to answer this, but how are we handing that, and are we handling that or even looking at that? And are we concerned about China's help to Pakistan financially to build these planes?

I will start with that.

Secretary RODMAN. Let me start.

Pakistan has had F-16s for many years. So what would happen would not be a qualitatively new technology that we are giving to Pakistan.

It is a complicated set of relationships because Pakistan has been a friend of ours for many years. And now, in fact, is more vital partner in the war on terrorism and has done extraordinary things in the common interest in the war on terrorism.

And that is why the President thought that it was time to lift the self-imposed restraint on adding to their F-16 capability in a way that, among other things, would not upset the military balance on the subcontinent.

The tech transfer issues I do not think are a problem here. I mean, we worry about Pakistan's role in proliferation, as you know, the whole A.Q. Khan business. And that is something where, again, we have pushed Pakistan to give us the fullest information, and they already did something very important in shutting down A.Q. Khan, but that is an issue.

And, of course, China is a proliferator, and we have had concerns with China about its proliferation, including to Pakistan. So these complications are there and we address them in different spheres.

But I do not think the F-16 decision raises a new problem. We have problems already. But as I described, I do not think the F-16 issues raises a new problem.

Mrs. DAVIS OF VIRGINIA. What about the concern of where China is making a partnership with Pakistan?

Secretary RODMAN. Well, China has long been a supplier to Pakistan. And I think our objection has been in the nuclear field, most of all, very significantly. But in the conventional area—I mean, China has long been a supplier of Pakistan's conventional capability, and that is not automatically a threat to us.

Mrs. DAVIS OF VIRGINIA. Does it concern the U.S., the Administration—and this may be the State Department, I am not sure—with the potential lift of the embargo, I would assume there would be Chinese engineers, as we have—which concerns me now with our American companies in China and Chinese engineers working or having access to those—would we now not be concerned if the embargo is lifted that there would be more of a potential of Chinese engineers in European Union companies, as well, and the potential of technology being lifted from those different companies that could be sensitive?

Secretary BURNS. Congresswoman Davis, we do have—we share your general concern that the embargo should not be—the ban should not be lifted, because we do not want to see a transfer of weaponry, but also of advanced technology and engineering talent from Europe to China.

So we share that general concern. That has been one of our most substantial reasons in talking to the Europeans why we think they should think about this and not to lift the embargo.

If I could, I just wanted to make one comment, because I think you have now—we have drawn a triangle, China and Pakistan and India, in the last two questions. And I just would like to say to Congressman Skelton—with your permission, Congresswoman Davis—

Mrs. DAVIS OF VIRGINIA. Sure.

Secretary BURNS [continuing]. That I had occasion to speak to the Indian government last evening about the question that you asked. And my understanding is that this is more of a strategic dialogue that they have in mind rather than a strategic partnership. And as Assistant Secretary Rodman said, it is very much in our interests to see China and India get along.

But I would associate myself with his remarks about some of the limitation that would likely go hand in hand with a dialogue that they would have.

And I would also just note that the Indian foreign minister is in Washington today. He is meeting with Secretary Rice.

And we, ourselves, are seeking a closer relationship with India. We are seeking a strategic dialogue with them. It is an enormously important country and enormously important democratic country. And we have been satisfied to see some of the recent progress in relations between India and Pakistan.

And so, in terms of security in South Asia, we will continue to work on both of these relationships.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentlelady.

The gentleman from New Jersey, Mr. Payne?

Mr. PAYNE. Thank you very much. This has certainly been a very informative meeting. And I certainly have concerns about U.S. security.

However, I think that this is just the tip of the iceberg as we move forward, because I think in the real world we are going to find that we have been able to have things fairly well our way, being really the only superpower through World War II and post-World War II and up to the present, not having very much real competition after the USSR situation broke down.

But I think world is going to be very much more complicated as we move forward. And I am not surprised at alliances. There is an alliance between China, Brazil and South Africa, for example. In economic terms with some situation with India co-joining in this new alliance. You are going to see China making trade agreements, as they have done in Southeast Asia.

And so I am just commenting that Pakistan has been probably our strongest ally in Asia, or in the Middle East, in the war on terror. They have relations there. India is one of the longest-serving democracies outside of U.S. and Western Europe, and they are making alliances with China.

China probably would not have the money to buy anything if it was not for the fact that our markets are simply open to China to sell everything that is not nailed down.

And so, if you want to look at culprits, we are probably the largest contributor to China's progress where they can even move to the stage of feeling that they can afford to buy or develop complicated weaponry.

I get sometimes confused with the quotas off on textiles. In the month of January, China saw 1,800 percent increase in cotton shirts and 1,400 percent increase in trousers. That is percentage increase in January to the United States of America.

Now, on one hand, we are talking about, "We better contain them. We have to watch them. We have to watch what they are buying." But on the other hand, we are absolutely single-handedly making China the most progress—they would be one-hundredth in importance and strength and growing if it was not for the United States of America.

And so I think that there is—before I am having an answer, I am simply looking at most favored nation status that we have—I guess we call it normal trade relations now—on one hand.

And then on the other hand we are saying, "How do we contain them? Are they our foes or are they our friends?" I think that is what the determination has to be made.

And maybe we have got to look at how do we all co-exist in this world. Rather than say we have got a potential enemy that we are going to have to fight 20 years from now, maybe we need to be looking at how we can—I do not know about making love, but how we can not make war.

Like I said, I am absolutely confused, where on one hand we absolutely make—our balance of trade deficit is unbelievable and we have put American businesses out of existence. The Chinese are going to close down the African Growth and Opportunity Act (AGOA) program in Africa, the little Caribbean textile industry they are trying to do. They are going to knock out every little country in Asia with these quotas off. That is a fact, because we are going to buy everything they have.

So I do not have a question. I am just baffled. And as we move into this new millennium, this is just the beginning. This is just a drop in the bucket.

And I will leave it to the senior members, especially on defense—I know very little. All I knew about was the M-1 when I was in Reserve Officer Training Corps (ROTC), so I do not want to talk about defense—and the M-1 thumb—you know, if you stuck your thumb in the wrong way you would get hit. Old-timers remember that.

So I just leave you with—and with you gentlemen sitting at that table, who are expected to give us clear answers, it is very cloudy.

And I think it is very difficult, in my opinion—like I said, not being a defense person—I am just looking at the fact that my district in Newark, New Jersey, has been ravished by all of our industrial might going.

We used to make—anything that was produced, anything that was used, one piece of it came out of Newark at one time—Newark, New Jersey—a little town up in New Jersey. Whether it was a screw, whether it was Pittsburgh Paint, whether it was Ronson lighters, you name it, we did it—whether it was General Electric, General Motors, RCA.

Today, we do very little—practically nothing as it relates to manufacturing and so forth as we know. The old ladies in the International Ladies Garment Workers' Union (ILGWU), the International—I used to call it the International Little Ladies Gromet Union—all gone.

So let me just conclude, like I said, with my time is that I just think it is an issue that our presidents, our administrators, that our—to determine the direction of the United States of America have to come up with some solution whether we are friends or foe, whether we are going to talk about how do we make peace.

Maybe the economic development will take them out of wanting to be warmongers. I do not have the answer, but I just really felt compelled to say that. I hope it is not that confusing because I have been known to ramble, you know.

But I do have these concerns. On one hand, where we are assisting, aiding and abetting; and on the other hand, talking about how do we stop them, cut them off.

Thank you.

The CHAIRMAN. I thank the gentleman.

I think the essence of the gentleman's statement, that we have supplied, through massive trade deficits, hard dollars that allowed a China, which earlier could offer IOUs to supplier states like the Soviet Union for military equipment, was able—has in recent years been able to purchase that equipment with American dollars: a product of the massive trade surplus they enjoy over the United States.

Is that a consideration?

Secretary BURNS. I would just say Chairman Hunter, and also just in response to what Congressman Payne has said, that we, obviously, need to seek a balanced relationship with China. It is an enormously important country. We had a significant trade relationship, which is of value to this country, to our country. And China is a political actor, especially in the North Korea situation, which can be potentially very helpful to us in that situation. We hope it will be.

But I would just like to say, in response to both questions, particularly Congressman Payne's, that we do have an obligation to safeguard the vital national security interests of our country in the Asia-Pacific region. And many of those are tied up in our military strength, our military position and our treaty relations with several allies in that region.

And that is why we are concerned about the military buildup that we see China undertaking. And many of China's neighbors share that concern. And thus the position we have taken on the arms embargo itself, the subject of this hearing.

Mr. PAYNE. If you will just yield.

Anytime a country develops itself economically, they are therefore going to become a military power. I mean, that goes way back for the last 1,000 years. And so I just want to say that we should not be surprised. One thing follows the other always in the development back before the Ottoman Empire, even back when the Vikings were conquering everyone. They had a little economics going.

So I just want to conclude with that.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank the gentleman.

The gentleman from Pennsylvania, the vice chairman of the committee, Mr. Weldon?

Mr. WELDON. Thank you, Mr. Chairman.

First of all, I support the Administration's position on attempting to convince the Europeans not to lift the embargo. And I do that as a friend of China. I spoke at their National Defense University in Beijing twice, and I take great pride in the relationship.

I do not understand where they are going, and I have told them that. I have concerns that they are not building up a defensive capability, but rather an offensive capability that troubles me, because we are not a threat to them.

And I support the Administration and certainly not at the expense of the European allies. In fact, right now, one floor below us, I have convened a meeting with 200 attendees from all 21 nations that are our contact nations on military-industrial cooperation. And down in B369 right now we have ambassadors, we have defense attaches from all 21 of our countries talking about the need to further enhance our military cooperation.

So I do not want to cause a problem with the Europeans. But I understand the Europeans' concern. And I hate to say it, but I think there is only one word I can use to describe our foreign policy, having been on this committee for 19 years, and that is "hypocrisy." Our policy. Our government.

I was one of nine commissioners on the Cox committee, five Republicans and four Democrats, that sat for seven months behind closed doors and looked at all the evidence to make a fundamental conclusion to the Congress about whether or not our security was harmed in 1995, 1996 and 1997. And our conclusion was unanimous: U.S. security was harmed by the technology transfer to China. But it was harmed by our own doing. We transferred the technology to China.

Here is a chart I produced back in 1999. Let us see. Let me run off the technology: warhead design, machine tooling, low-observable technology, telecommunications, propulsion, high-powered computers, encryption, space launch. That was from the U.S. to China.

And I saw the evidence of CEOs of American companies able to get Presidential waivers to send technology into China.

We ended the Coordinating Committee for Multilateral Export Controls (COCOM) process in 1995—we ended it—that was the legitimate process of controlling technology between the Europeans and us. We decided that we would end that process and replace it with something called the Wassenaar Arrangement, which is a joke. And we wonder why the technology is flowing. Are we really sending the right signals to the Europeans? Are we the real role model or are we hypocrites?

The point is that we have not had a good track record. And the advantage we have in Congress is that we are here through administrations. I have been here 19 years, and I can tell you, if I were a European looking at the track record of the U.S. on the issue of selling technology to China voluntarily, I would say, "And you are going to tell us what to do?"

Now, I support the Administration's position. I had a study done in 1998 of the violations of arms control treaties by China and Rus-

sia to Iran, Iraq, Syria, Libya, North Korea, Pakistan and India. There were 38 sanctionable violations of arms control treaties in sending technology. We imposed the required sanctions 6 times out of 38.

We saw the Chinese selling ring magnets to Pakistan for their nuclear program. We imposed sanctions and then waived them a couple of years later. We saw the Chinese selling M-11 missiles to Pakistan. We imposed sanctions and then waived them later.

The point is that our foreign policy, in both Democrat and Republican Administrations, has not set the example that I would like to see set for the Europeans in telling them not to lift the embargo.

The fact is we have had a checkered pass in terms of technology that we ourselves provide to China.

There was a limitation on the high-end supercomputers that could be sold in the world marketplace back in the mid 1990's. Only the U.S. and Japan were producing them at the time.

And the U.S. unilaterally, without talking to Japan, decided it would sell high-end computers to China, and we did. And the assurance we got from the State Department was, and the Commerce Department, "Oh, we will get certificates of end-use as to who the end-user is."

Well, tell me when those certificates come in. Because those high-end supercomputers that we sold to China ended up at all their military labs, at their military industrial complex.

That was a U.S. decision. In fact it was preceded by a visit of our secretary of defense at the time, and there was even a letter written by our President to one of our defense contractors that I have copies of, I will put it in the record, saying, "We hope to reduce the amount of limitations on selling high-end technology to China."

Now, I am a real patriotic American, and I am a strong supporter of our military, and I do not want to hurt the Chinese, I do not want to hurt the Europeans, but our foreign policy is the problem.

If we cannot have a consistency in setting an example to those countries that we now want to listen to us, then we can expect the result to be what I hope it is not, and that is their effort to sell technology to assist their own markets.

To be honest with you I am disappointed in the discussion from the Administration. I would have liked to see the three of you and the leadership of this President—who I support fully—come in and tell us what specific steps we can take in the Congress to stop the huge imbalance of trade that is actually financing the growth of this outrageous Chinese offensive military capability.

That is what I want to hear. I want to hear the specific steps that we can take. We will give them to you. This Congress, Democrats and Republicans, is ready to pass any initiatives that we can take on the trade front to stop the imbalance of trade which is financing China's military growth.

But I think the key thing for us in the future is having a consistent foreign policy. We are going to be here for the long term. Administrations will come and go, but looking at it over the past 19 years, there is only one word that I can use for our foreign policy

that has got us in this mess today, and that one word is “hypocrisy.”

The CHAIRMAN. Gentlemen, a strong letter to follow. Do you have a response?

Secretary BURNS. Thank you, Mr. Chairman. I will start, and I am sure my colleagues would like to join in.

Mr. Weldon, I just respectfully disagree. I am a career member of the U.S. Foreign Service. I have served 23 years. So I have served a variety of Administrations—I can obviously only speak for this administration in my current position.

But this Administration has carried out a policy toward China of engagement. Our relationship has improved across the board over the last four years.

But we have been very clear and very firm that we are not going to assist in the military buildup of China in a way that would be disadvantageous to our national security interests in the Asia-Pacific region.

That is why we have conducted this very spirited debate that we have had with the European Union about its inclination to lift the embargo. We think that would be a mistake. We think our own policies have been responsible.

Mr. WELDON. Does the gentleman disagree that in fact the U.S. was one of the largest contributors to China’s technology in the mid-1990’s when the gentleman was a part of the foreign service?

Does the gentleman disagree with the unanimous recommendations of the Cox committee, when we said that our security was harmed by our own actions?

Does the gentleman disagree that it was the U.S. who led the effort to dismantle the COCOM process and replace it with—does the gentleman disagree, as a career foreign service agent not just with this Administration, I am talking about during the tenure of the gentleman’s career as a foreign service employee?

Secretary BURNS. Congressman, thank you for your question. [Laughter.]

The answer is I think we could have a review of the last 25 years if you wanted to do that. I have not been involved in China policy directly over the course of my career.

I represent the Administration as undersecretary of state now and have some responsibility for that now, given our global interests. And I think it is appropriate for me to speak for this Administration.

Mr. WELDON. With all due respect, what part of my statement do you disagree with? I support the Administration. You started off by saying, “I disagree with you.” What part of my statement do you disagree with?

Secretary BURNS. I respectfully disagree with your characterization of our overall policy. And I should do that on behalf of the Administration, and I feel very confident in doing so.

Mr. HYDE. I thank the gentleman.

And the gentleman from Arkansas, Dr. Snyder?

Dr. SNYDER. Thank you, Mr. Chairman.

I appreciate the dual chairmanship here calling this hearing today. I am pleased to see the consistency with regard to our attitude about the European decision-making process.

I want to ask a somewhat unrelated question. There is an article in today's *Washington Post* by Jonathan Krim, headline, "Web Censors in China Find Success: Falun Gong and the Dalai Lama are Among Blocked Topics." And the gist of the article is that a report came out yesterday that says that the Chinese government is having great success in blocking web sites and people's ability in China to gain access to information about the Falun Gong and other kinds of things.

And it seems like we have a situation where perhaps in the past we would have thought that our most valuable military technologies would be very easy to control, but there would be no stopping the internet, in terms of the Chinese people's and any oppressed people's access to the internet.

And it seems like what this hearing is about today is becoming more and more apparent, as Mr. Weldon discussed, how military technologies—perhaps dual-use technologies—but how rapidly they can be transmitted around the world and carried around the world. And then perhaps how easy it is for a repressive government to block access to the internet.

My question is, there are allegations in this article that certain U.S. companies may have assisted the Chinese government in fine-tuning software programs to enable them to block access to certain sites. Do any of you have any information about the presence of or involvement of U.S. companies in that activity?

Have you all seen that article today or the report that came out?

Secretary LICHTENBAUM. Congressman Snyder, I do not think any of us have seen the article, but we would be happy to look into that and get back to you as to whether any U.S. agencies have assisted. I would personally be surprised to hear that any had, but we will get back to you on the question.

Dr. SNYDER. That is fine. Thank you.

On another topic, and this is—I am just going to make this as a comment—with the rapidity with which technology moves around, we are now several years into an Administration that in my view, and the view of a lot of people—and this is not you-all's bailiwick, so you do not have to respond to this—but I am very concerned about investment in research, all kinds of levels of research. I do not mean applied research for military reasons, but basic research, the funding of research in this country.

As this competition moves forward, our edge as a country is going to be technology. It has to be technology. And what we are learning in the discussion today is how rapidly technology can be acquired by potential competitors.

And if we underfund research at all aspects, and that spirit of serendipity that you fund something over here who knows what good may come from it—if we curtail our adequate funding and spirited funding of research it is going to bite us down the line. And that is just a comment.

Mr. Chairman, I do not think I have any further comments.

Thank you.

The CHAIRMAN. I thank the gentlemen.

The gentleman from California, Mr. Royce?

Mr. ROYCE. Thank you, Mr. Chairman.

Of great interest to me are China's actions as a proliferator, and I think the People's Republic of China's (PRC's) willful government-supported proliferation is very troubling.

We heard from one of my colleagues, Mr. Weldon, as to the issue of the ring magnets, which at the time we raised that issue—the possible consequences of that technology being transferred from China to Pakistan.

I think arguably you could make the case that A.Q. Khan would not have been able to develop an atomic weapon for Pakistan without the use of that technology, without that technology transfer from China.

And, of course, we have got the concern that once A.Q. Khan had done that, he then tried to proliferate that technology to Iran, to Syria, to Libya and to other countries.

And so should we be concerned that sensitive European technology could be passed on in turn to North Korea, to Iran, to Burma, to Syria or others should this embargo be lifted?

And second, many have been watching Chinese expansion around the world with some worry about Chinese indifference to international norms with respect to human rights. And let me give you a couple of examples.

Because China is flexing its muscles in parts of the world often overlooked by the United States. And I am thinking now of Africa. I am thinking about Sudan, for example, where China comes in with weapons systems for the Sudanese government and at the same time China plays the role in the United Nations, of course, of preventing action on Darfur that would stop the genocide, trying to veto any concerted action by the international community to do something about human rights in Sudan, because they get the mineral wealth and they supply the weapon systems.

It is not unlike what happened 10 years ago in Rwanda, when Chinese machetes were used in the genocide there with the Hutu militia. So needless to say, there is a certain amount of indifference or cavalier attitude about human rights or genocide around the world.

If this European Union embargo were to be lifted, my question is, is China then able to expand its influence even more rapidly? And let me ask that question of the panelists here.

Secretary LICHTENBAUM. Well, perhaps I could speak to the first part of the question and leave the second one for Under Secretary Burns.

If I am understanding the question correctly, exports of technology from the European Union countries to North Korea and Syria and so on—if you would like to clarify.

Mr. ROYCE. Let me clarify it, because I think we see it pretty clearly with the ring magnets. China takes that technology, gives it to Pakistan, Pakistan—A.Q. Khan then, not Pakistan—but A.Q. Khan then proliferates.

China has this unique relationship or interest in establishing arrangements with pariah regimes, apparently. This is what we have seen in Africa and elsewhere, is, sort of, an incentive to rush in at the same time the international community attempts to bring pressure to bear on a rogue regime to discontinue its bad behavior.

So should we be somewhat concerned about that transfer of that technology ending up in the hands of regimes which, frankly, do not abide by any type of norm with respect to the way that it conducts its affairs?

Secretary LICHTENBAUM. Thank you for the clarification, Congressman.

And, yes, absolutely we should be concerned. I think this is one of the reasons why the Administration and the Congress have been so concerned about the lifting of the arms embargo is that technology, for example, could be an item that might be restricted now, but would not be restricted then.

And then would that permit the Chinese to retransfer, perhaps without the knowledge of the European exporters, to countries such as North Korea or Syria, Sudan; countries where we would have strong strategic concerns?

So absolutely that is a reason why we ought to be strongly opposing the lift of the embargo.

Secretary RODMAN. May I just add a point? There is some irony in the fact that some of China's customers in the conventional arms supply area—Sudan, Zimbabwe, Burma—are also the subject of E.U. arms embargoes.

But, you are right, I think one of the arguments we have made against lifting the embargo is the bizarre signal it sends in the whole human rights—in the whole area of—

Mr. ROYCE. Let me conclude, then, with one last point, because I want to know—and I know this is subjective—but as you assess European motivations on this, I understand the commercial motivation, but is it possible that some of this is more cynical? Is some of this an attempt to create a more multipolar world in order to restrain U.S. influence? I am thinking of the way in which the European press handles this issue.

And how do you assess Chinese motivations in this case? Is this an attempt to drive a wedge between the transatlantic alliance? Is there something going on here more than the commercial aspects of this that we should also be looking at?

Secretary BURNS. Congressman, thank you.

I think there are a variety of reasons that the E.U. has put forth for lifting the embargo. And we disagree with all of those.

Some are commercial, very clearly. Some are more political—that is probably the majority of what we hear from the European Union; that they need to establish a more stable relationship with China, that lifting the embargo would somehow be a symbol of the E.U.'s inclination to have a better relationship. And we think that they are wrong in putting forth that rationale.

There are some European politicians asserting that the world will be better off if there were multiple poles of power in the world. And some have argued, in essence, for the European Union to build itself up into a strategic counterweight to the United States. You know what we think of that.

Mr. ROYCE. I do.

Mr. Burns, when they make that point, please point out to them the consequences, post-9/11 and post-proliferation of ring magnets from China to Pakistan and post-proliferation of weapons of mass destruction from A.Q. Khan to at least three other countries—that

the desire to do this in this anarchistic state that the world finds itself in today, with so many pariah regimes, is an invitation to the sum of all fears.

It is really inviting a world in which we are going to have much less capacity to deter and control the proliferation of the types of weapons that can end up in the hands of terrorists.

Mr. HYDE. The gentlelady from California, Ms. Watson?

Ms. WATSON. Thank you so much, Mr. Chairman.

To, I guess, it is Ambassador Burns, we are spending time discussing the lifting of the embargo by the E.U. At the same time, China is growing as an economic power. Probably will be the number one power in the world; it certainly has the population. It owns a great deal of our debt.

What is the Department of Defense, what is the State Department, if you can answer, doing to deal with the E.U. in light of what we are doing with China?

Every garment that I buy is made in China. So when you look at the trade—and we just passed the bill out yesterday that will allow foreign airlines to carry our mail and probably China will be doing just that—so we are dealing with them on this hand and then now that they are building up military power through weapons, our possibility will be, when the embargo is lifted, what are we doing? Are we dealing with the E.U.? Are we sitting down at the table? Are we sitting down with the Chinese? What kind of a card can we expect? Can you enlighten me, please?

Secretary LICHTENBAUM. Congresswoman, thank you for the question.

And I think it hearkens back to the conversation we had earlier as well with Congressman Payne on this question of whether by purchasing goods from China, we are thereby giving them resources that they can use for military buildup.

And it certainly reflects the complexity of our relationship, in that China unquestionably benefits significantly from the trade that they do with us. And I am sure that facilitates their military buildup.

On the other hand, I do not know that a country of a billion people can be kept poor indefinitely and whether a poor and non-prosperous China would be in our national security interest either.

If one compares, for example, to North Korea, the country which has mounted the capacity to challenge us with many fewer resources than China, it seems to me likely that if the Chinese want to mount a military threat to our country, they will do so regardless of our trade relationship.

So, in my view, the trade relationship in commercial items, from a national security standpoint, is a good thing in by and large that it promotes better relationships at the people-to-people level between our countries, our businesses can get to know each other, people can get greater exposure as they travel back and forth.

So, I think, overall, the trade relationship with China, from a national security standpoint, is a positive thing and ought to be encouraged.

Obviously, there are significant economic consequences at times in the textile area as Congressman Payne was mentioning, and

other areas as well. We are very aware of the jobs and employment that have been lost to Chinese exports to this country.

And we ought to respond forcefully to that where we see that there is unfair trade—I think the administration has been very active in responding to unfair trade—and even in the situation of safeguards, where there is no unfair trade necessarily but there is a market disruption as, for instance, caused by the lifting of the textile quotas.

So, in my view, we also try to manage the trading relationship in a way that gets the benefits for the United States, encourages a prosperous and stable China, but allows us to respond where we need to where there are undue impacts on particular American communities and workers.

I hope that answers your question.

Ms. WATSON. No, it does not completely.

Secretary BURNS. Feel free.

Ms. WATSON. What are we doing? How are we negotiating with the E.U. in this regard?

We are talking about the E.U. lifting the embargo on the sale of military weapons. What are we doing along those lines?

Secretary LICHTENBAUM. Well, we are doing everything we can, and the Department of State, obviously, has the lead. But the President—

Ms. WATSON. Well, can the Department of State give a little more detail?

Secretary LICHTENBAUM. I am sure he would be happy to. But I can say that we are doing everything we can.

Ms. WATSON. Well, let me ask the Department of State then.

Secretary LICHTENBAUM. Yes.

Secretary BURNS. Thank you, Congresswoman.

Pertaining to the E.U. arms embargo, we have had, over the past 12 to 15 months, a vast array of conversations at every level, from the President to the Cabinet level in our government and down the ranks, with the European Union about the consequences that we think would ensue if they lifted the arms embargo.

And we have pointed out specifically the strategic reasons we think that that is not the right way to go. We pointed out the human rights deficiencies on the part of the Chinese government as a rationale for not doing that. And we have let them know that there would be very serious consequences in our relationship if they went ahead with that initiative to lift the embargo.

That has been combined, as we have said at a couple of junctures today, with a lot of very positive and good statements from the Congress that have allowed us to represent a united American view, both congressional as well as executive branch, to the Europeans.

I would be happy to get more specific about—

Ms. WATSON. What is that united view?

Mr. HYDE. The gentlelady's time has expired.

We have to end by 11:15 because of previous commitments from our witnesses. So if we could be brief in our questioning that would be helpful.

And Mr. Forbes of Virginia is next.

Mr. FORBES. Thanks, Mr. Chairman.

And thank the gentlemen for being here.

Let me say that I too am concerned about the E.U. embargo being lifted. And also, like you have heard a lot of people say, we cannot kid ourselves that we are financing the modernization of the Chinese military. But our defense budget dwarfs anything that we see in Europe.

And let me tell you a big concern that I have. Congressman Skelton and I led a delegation to China, and when we came back we were far more fearful than when we left.

But one of the things that concerned us enormously was that, while we were there, we met with a number of Americans in China—some of them your employees—who were very, very concerned about two big issues that they raised to us.

One was the fact that there are a number of Chinese companies that are trying to get into the United States, and have employees trying to get into the United States, that they know are fronts to try to pull intelligence information out of our defense industry here.

And they say they do what they can do to try to stop that from taking place. And they get pressure, in their words, from the State Department, a lot of times, to expedite them and get them into the United States quicker. And they were very, very concerned about that taking place.

And the other thing that they indicated to us was a huge concern with individuals who were working in the defense industry with defense contractors, some of whom they suggested might have been here 10-plus years, but were still having huge control in China because their families were there and the control that was back there.

And my question to you is, are any of the three of you aware that this is taking place, one?

Number two, have you done anything to assess how widespread it might be and how damaging it might be?

And number three, what, if anything, have we done to try to stop it?

And one of the things that I am hoping at some point in time that we will even have some hearings to look at that, because I think we may have a far greater problem with some of those concerns than some of the ones we may be talking about today.

Secretary BURNS. Congressman, thank you for your questions.

Those are all good and direct questions. What I would like to do is take those questions, and if you would allow that to happen, and we will get back to you with a considered response from the three agencies at that table.

Some of the answers might be properly addressed in another session—in a closed session, as well.

Mr. FORBES. We would be happy.

Mr. Chairman, hopefully they have indicated they need to get back. And we have talked before about perhaps having a hearing on that issue, and maybe we would have the opportunity to do that down the road.

The CHAIRMAN. We will do our best to accommodate the gentleman. Absolutely.

I thank the gentleman.

The gentlelady from California, Ms. Davis?

Ms. DAVIS OF CALIFORNIA. Thank you, Mr. Chairman.

And if I may, Secretary Lichtenbaum, could I go back to the question, I believe, that Chairman Hyde raised about the our own regulations and the statement that you made that, "Actually, it is not what it says. We are going to change that"?

And I am just concerned about the confusion that is out there with our own dual-use technology and the companies that are engaged in that.

Can you tell me a little bit more, perhaps, about any changes? Are you considering changes in the definition of defense articles, defense services? Is that driven partly by the Chinese navy buildup as well?

I mean, what can we expect? And I am really just looking for some clarification, because I was a little concerned about the fact that we are not very clear, so how do we expect the E.U. to be clear.

Secretary LICHTENBAUM. Thank you for the question and the opportunity to clarify.

I think that the industry certainly has a fairly good understanding. We work with the principal companies who would be exporters of sensitive items on a regular basis, and I think there is a fairly good understanding in that community that a license application to export a sensitive item to the Chinese military or Chinese military end-user is very unlikely to get approved under this Administration. And so we do not, in fact, get many for that reason.

I think the goal here is to reflect in the regulations what our policy has been, but I think that policy is fairly well understood by the industry community.

Ms. DAVIS OF CALIFORNIA. Excuse me. Are you suggesting that it is not sometimes—oftentimes, perhaps—a tough call between what is applicable and what is not? And in fact are we holding up licenses and perhaps even innovation in some ways? I want to be certain that we are, obviously, protecting our own interests, but not stifling some of the needs that we have as well.

Secretary LICHTENBAUM. Absolutely.

There are a number of tough calls in the system. One is the one that you mentioned as between what is a defense article, which is regulated by the State Department as a munition, versus what is a dual-use item that has both commercial and military and is under the Commerce Department. That is often very difficult to determine case by case.

In some instances not involving sales to the Chinese military, there are close calls from a licensing-policy standpoint as to whether this is a good end user or bad end user, how much confidence we have, et cetera. And those certainly are discussed in the inter-agency process where necessary.

So we do have some close calls.

I think we are careful not to try to paint with too broad a brush and cut off all dual-use exports to China. A number of U.S. companies have subsidiary operations in China that rely on the ability to send dual-use technology there. I do not think there is a need to go further than we are planning to go.

And we do need to take into account that we have a very important commercial relationship with China, as well as these strategic concerns.

I want to perhaps take this opportunity to mention that I do not think it would be fair for the Europeans—and I know they have made this point—to allege that we have opened the floodgates on dual-use technology so that it is the pot calling the kettle black somehow for us to object to them lifting the arms embargo. It is simply not the case.

If anything, our dual-use controls and our licensing policies are stricter than the Europeans'. And you see that on items such as machine tools, night vision equipment and—I can provide more examples. But I do not think it is accurate to say.

And I think there was some suggestion earlier, perhaps, that the U.S. has a more liberal policy on dual-use exports than the Europeans do. I do not believe that is the case.

Ms. DAVIS OF CALIFORNIA. If I may suggest, Mr. Secretary, perhaps there is some confusion sometimes between agencies, and that may be something worth looking at, whether we are sending different messages, perhaps, at times. I think that is a problem. And maybe for later, as well, the question of the human rights and where that fits in terms of our priorities.

We mentioned that we would be looking for strict adherence, but where in fact would that lie in regard to other concerns that we have?

And if, in fact—I do not expect that those are going to be answered, but if they were, where would that fit in the total scheme of what we are talking about today?

Secretary BURNS. The Chinese problem in the treatment of their own citizens, denying them basic rights, is a major concern of our country. It is the reason for which the United States arms embargo, as well as the E.U. arms embargo, were imposed in the first place in June of 1989, following the events of Tiananmen Square.

And I can assure you that whenever we have meetings with the Chinese leadership, human rights are high on the agenda. That was certainly true of Secretary Rice's first visit to Beijing in February of this year.

Ms. DAVIS OF CALIFORNIA. Thank you.

Mr. SKELTON. Mr. Chairman?

The CHAIRMAN. I thank the gentlelady.

The ranking member had a short addendum here.

Mr. SKELTON. Mr. Chairman, thank you.

And let me thank Mr. Forbes for his line of questioning. I think it is extremely important that the Armed Services Committee, in particular, have either a classified briefing or a classified hearing on this issue. And I look forward to learning more information on that.

Mr. Chairman, thank you.

The CHAIRMAN. Yes, we will accommodate that request. And I think it is very well-put.

And the gentleman from California, Mr. Rohrabacher?

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

I would like to thank Chairman Hyde and thank you, Chairman Hunter, for having this very significant and important hearing

today. This is an issue that deals directly with our national security and I do not believe our children are going to be safe if we keep going the way that we are going. And a couple of questions along this line.

First of all, businessmen who violate these laws, those rules that we are setting down and actually end up being responsible for sending technology that could be used for military purposes to communist China, do they receive criminal penalties for this?

Secretary LICHTENBAUM. If I could answer, we do have both civil and criminal authority to penalize companies that have illegally exported items to China.

For example, in 2001, you may be familiar, McDonnell Douglas paid a penalty over \$2 million administrative——

Mr. ROHRABACHER. Has there been any examples of any businessmen that have been put in jail, incarcerated for sending technology like this, profiteering by sending weapons technology to communist China?

Secretary LICHTENBAUM. I believe there have been. I know that we have had a criminal conviction, for example, last October relating to the illegal export of amplifier chips that apply in the U.S. Hellfire missile.

So I believe that person would be going to jail since they have had a criminal conviction.

But we would be happy to provide a——

Mr. ROHRABACHER. Yes, I would like to have a list of all businessmen that have been incarcerated for sending this—and let me know that—I believe that American businessmen will pay more attention to that than they will be to fines against their own companies which end up being paid for by their stockholders, of course.

Secretary LICHTENBAUM. If I could just add on the point, I just think that while we do go after—and I completely agree with your point, Congressman—I think I would be remiss in not mentioning that we believe it is important to increase the amount of penalties that we can impose on U.S. companies and U.S. individuals who illegally violate our laws.

We have been working with staff to obtain that authority and we hope that the Congress will act.

The Weapons of Mass Destruction (WMD) Commission report that recently was released specifically endorsed congressional action to provide greater law enforcement authorities and greater penalty authorities——

Mr. ROHRABACHER. That is one end of the solution. The other end of the solution is to making sure that we pay attention to what Curt Weldon was trying to get at, and that is that American policy itself has led to many of these problems.

One of my colleagues earlier talked about how we must spend more money on fundamental research. How many Chinese students from mainland China are in these research programs and are graduate students and are participating? Aren't we basically, if we do not—we may not be giving them weapons, but aren't we providing China the fundamental education infrastructure to build the weapons systems that we are trying to prevent them from getting in their hands?

Secretary LICHTENBAUM. Well, that is a very important issue and a very difficult one.

I think the experience of U.S. educational students and U.S. foreign policymakers has been that oftentimes some of the people in these countries—and China is one, but there may be others—where they have studied in the United States and then gone back home, have been some of the best friends of the United States, because they have been exposed to our culture—

Mr. ROHRABACHER. Best friends or worst enemies—and worst enemies? If someone is our best friend and provides the current government of China the ability to shoot down our satellites or something like that, I do not care what platitudes they say about American culture, I am worried that their government now has the ability to destroy American military personnel as they are defending Taiwan.

Secretary LICHTENBAUM. And that is exactly what makes this issue difficult is that there are positives to having Chinese students. There are also—we need to be very careful that they do not have access to sensitive technology.

And that is why we have our deemed export program, which requires universities to screen when Chinese nationals come to this country in order to make sure—

Mr. ROHRABACHER. Mr. Chairman, I would suggest the standard we should use is that Chinese students are free to come here as long as they are studying poetry and enterprise, and not high-tech systems that could have dual-use.

Let me just note—and again, this point has been made over and over again—as long as we have a policy that provides China with a massive amount of American money to spend, meaning that we end up losing on the end of this trading agreement, we are giving them the means to purchase weapons. And we have got to come to grips with that. It is not just a weapons-focused policy, but we have to have an overall policy, or it is not going to work.

And I think that the American business community has been undermining in both ends of this, Mr. Chairman: both the transfer of technology, but also the ability of us to redefine our economic relationship in a way that does not benefit the Chinese, because they have had short-term profit in mind instead of the interests of the United States.

Thank you very much, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

And he makes a good point in that, in the old days, when China would go to Russia, to the Soviet Union, to try to buy missile cruisers or Kilo-class submarines or MiG production, they would offer IOUs to the Russians, and that would regularly be turned down.

Today, they go with American dollars. And American dollars do purchase militarily critical technology. In fact, American dollars that are part of the massive trade surplus that China enjoys over the United States would be used—if the European arms embargo was lifted, would be used to buy some of those systems.

So we do have a problem here in that if you produce physicists, you have to conclude that those physicists will contribute or could contribute to a military effort.

And second, if you provide dollars, you have to conclude that hard dollars do contribute to a military build-up. And so that is a policy discussion that I think this Administration is going to have to engage in.

Any response to Mr. Rohrabacher's statements?

Secretary BURNS. Mr. Chairman, if I could, I think in several of the last five or six questions there has been maybe a recurring theme about what benefits do we derive as a country and society from an open relationship with China.

I would like to defend the proposition that we ought to have a balanced relationship with China. That has been the policy of President Bush. It has been the policy of most American Administrations, going back to President Nixon in 1972, of course, when he recognized China.

And we cannot turn back the clock. China has become a global power, especially in the economic realm. And there are many advantages to the United States that accrue from an open trading relationship, many advantages to our economy.

It is also true that we have to be tough-minded in protecting our economy from unfair Chinese trade practices. And we have gone over that a little bit today.

Mr. ROHRABACHER. Could you list a couple of those advantages? I am really not quite sure what advantages you are talking about that we have received by making China into this megapower.

Secretary BURNS. One that is obvious is lower-priced goods for American consumers, in the competition that goes on every day in the market economies around the world and international trade.

But I was just about to say that it is also true that as we have this open trading relationship, it has to be a fair one. And you have seen this Administration act very aggressively to defend American consumers and American industry, whether it is intellectual property rights violations or other practices that are injurious to our economy and that do not comport with the rules of fair trade around the world.

I was actually going to say that there are many advantages that come from open exchanges through education. But we have to be tough-minded about that as well. And that is certainly true of human rights violations.

So what I am essentially trying to argue is we have to deal with China as it is. And we have to be clear-eyed about China. But we have an enormous national interest in the engagement that produces a peaceful and stable relationship between our two countries in the economic, political and military realm, and I think we have achieved that balance in our policy.

The CHAIRMAN. I think the gentleman.

The gentleman from North Carolina, Mr. Spratt.

Mr. SPRATT. South Carolina.

The CHAIRMAN. South Carolina, Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

Let me pick up on where Secretary Burns left off and say I wholeheartedly agree: our overriding object should be a balanced relationship.

But looking at the trade relationship between us and China, it is hard to say that relationship is balanced when for 20 years the

balance of payments deficit has grown and grown and grown every year relentlessly to the point where last year it was \$162 billion.

It is augmented by their currency policy, which has pegged their currency at an artificial low value, giving them an additional advantage—comparative advantage. And there is no end in sight. It shows no signs of abating whatsoever.

And as Mr. Payne pointed out and Mr. Hunter pointed out, that is part of the reason they are able to go into the world markets today and buy high-technology goods. They can pay cash, yen, euros on the barrelhead for the goods they seek today, and there are willing sellers out there who will respond to hard currency.

What will we do about that?

This is our trade policy. You called it a flourishing commercial relationship. Surely there has to be more reciprocity in that relationship to call it flourishing. It has to flourish for both partners if the theory of free and competitive trade, competitive advantage is to prevail.

What do we do about that?

Secretary BURNS. I do not disagree at all, Congressman, with the way you began your question. And that is that we need a balanced relationship; that there has been an imbalance in trade, and there have been unfair trade practices, and we have called the Chinese on that, and I think we have been aggressive in doing that.

The advantage from an open trading relationship, of course, is not just the fact that low-priced goods come into the United States. That, of course, is beneficial to consumers. I have also seen in Shanghai and other parts of China the enormous opportunities for American companies to invest there and to derive considerable benefit.

So achieving a balance overall among our political, economic and military interest, and we have, is very much at the heart of our policy.

Mr. SPRATT. Do you know the E.U.'s balance of trade deficit with China last year or Japan's balance of trade deficit with China last year? It was a fraction of ours, was it not?

What are we doing wrong that they are doing right that has made their balance—their trade relationship—much more balanced than ours with China?

Secretary BURNS. Thank you.

I would just conclude by saying, you are absolutely right: that what is not in imbalance is the trade relationship, and that that has to be righted. And that this Administration is taking steps to do that. And I am sure my colleague from the Department of Commerce would be happy to enumerate some of those.

Mr. SPRATT. Well, the proof of the pudding is in the bottom line, and it gets worse and worse every year. I just do not see any trend lines in that direction at all. Seems to me to be getting worse.

Time is limited. Let me move on.

The European parliamentarians with whom I have spoken about this—and it is necessarily a cross-section or anything in depth—but they have told me—at least this is their pitch or explanation—“embargo” seems to be to them a harsh word, a term or practice that you apply to miscreant, rogue countries. And they do not think China should be characterized in that manner; that we can still

have export controls, they say, and substantively the same thing without the pejorative, without the stigma that the word "embargo" carries with it.

If the Europeans—you seem to have succeeded—we seem to have succeeded in slowing them down and causing them to reconsider what they are about to do, to lift the embargo. But if they persist and lift the embargo, is there an opportunity here for a second-best outcome where we could insist, "Okay, if you are not going to call it an embargo, you have got to have realistic export administration controls, it has to be adequately staffed, it has to be diligently applied, there have to be sanctions, there have to be legal consequences"?

Is there some opportunity like that that we could seize upon so we could get much better surveillance and control of truly dangerous dual technologies?

Secretary BURNS. I will begin the answer from this table by saying that the European Union imposed the embargo in late June of 1989 because of the Tiananmen events. And we believe that it is appropriate, for strategic and human rights concerns, to maintain that embargo, for the E.U. to do that.

Now, they have also over the last several years developed a code of conduct among the E.U. member states which seeks to govern—

Mr. SPRATT. But it does not have any real legal sanction or legal consequences, does it?

Secretary BURNS. Exactly. Exactly. It is voluntary.

Mr. SPRATT. So if they insist on dissolving this thing called an embargo, is there a way to turn it around and have real rules, real rules with sanctions and an export control administration that is meaningful, unlike COCOM in its latter days and what we have right now?

Secretary BURNS. Our preference is that they maintain the embargo. And that is the basis of our policy discussions.

Mr. SPRATT. I understand you have to say that.

One final question: While we maintain the embargo and Europeans to some extent maintain the embargo, there are other countries out there that supply China's wants and needs, and one is Russia.

Can't most of the things that they are seeking be supplied and aren't they being supplied by the Russians, Surface to Air Missiles (SAMs), for example, which are critical to their strategy—double-digit SAMs?

Secretary RODMAN. I would say, Congressman, that we are worried that they would in Europe be able to get stuff that they cannot get from the Russians.

You are absolutely right, they get heavy military equipment from Russia, but in Europe they would have access to a lot of advanced technology of different kinds, more modern—that we think would have a qualitative benefit for them.

So we worry that they would get stuff in Europe that they cannot get elsewhere.

Mr. SPRATT. But they can get quite a bit from Russia, can they not?

Secretary RODMAN. They get the heavy weapons, absolutely.

Mr. SPRATT. Have we—

Secretary RODMAN. It is now on the agenda of our discussions with the Russians.

Mr. SPRATT. What about other countries: Pakistan, Israel, Japan? someone mentioned earlier the machine tools. I remember when Toshiba sold the Russians our multi-axis technology that was unique and special to the quietness of our submarine propellers. Are other countries engaged in selling stuff due to lax national controls on exports?

Secretary RODMAN. We are having the same discussion with the Israelis, I can assure you.

The Japanese, if I remember the Toshiba case, there were criminal penalties in this country. So I am sure we have ways—

The CHAIRMAN. If the gentleman will yield, Toshiba was governed under the scandal in which the sold their nine-axis milling tools to the KGB. Toshiba and, I think, Konigsberg of Denmark sold the numerical controllers. That was governed under COCOM.

And I think one question that is attendant to Mr. Spratt's excellent line of questions is—we dissolved the COCOM with the Soviet Union's demise; do we need a new COCOM? Do we need an apparatus? And are we simply, kind of, swimming around without a compass, trying to address these things on an individual, ad hoc basis as a result of an absence of a COCOM-like apparatus?

Do we need a COCOM apparatus?

If the gentleman would allow me to just ask that question.

Mr. SPRATT. Thank you very much.

The CHAIRMAN. And I will yield back to him.

Secretary LICHTENBAUM. Well, I think that is an excellent question.

Clearly, the Wassenaar Arrangement, which is the successor to COCOM, is not sufficiently strong from a United States perspective. And we are working to strengthen it, although given the fact that Wassenaar operates by consensus and the number of countries who are members, it has been long, slow sledding, and I cannot say that it is going to get any faster anytime soon.

The CHAIRMAN. So in your judgment, wouldn't it be good to have a COCOM where you have standards, where a nation can tell their large corporation that comes in and wants to make a sale, "Sorry, we cannot do that. That violates COCOM"?

That was one of the good things about COCOM was that it had definite, precise, ascertainable standards. And it was a skirmish line, if you will, that could stand out against the international companies that wanted to make transfers that were not in the interest of the free world.

Why don't we have that today—or why don't we reinstate a COCOM?

Secretary LICHTENBAUM. Well, I think, frankly, this goes back to the reason why COCOM disappeared and why we have Wassenaar today, is that some of our allies were unwilling to maintain an arrangement that was as strong as COCOM in the absence of a threat that was as universally agreed as the Soviet Union was.

So with respect to some of the earlier remarks, I think it is was not the United States that sought to terminate COCOM, but really a recognition that the consensus that underlaid that organization

did no longer exist. And we needed to do the best we could, which is not as good as we will like to be.

If we could have something that was more—that was stronger, more like COCOM, it would certainly be advantageous from our standpoint.

The CHAIRMAN. Thank you, Mr. Spratt, for letting me weigh in. Go ahead. Do you have any further final questions?

Okay. I thank the gentleman for his excellent line of questions. And the gentleman from Michigan, Mr. Schwarz?

Dr. SCHWARZ. I will be very brief, Mr. Chairman.

Secretary Burns, of the countries in the E.U., if we take the U.K., France, Germany and Italy, who is the leader there? Who is the king Sinophile that is leading the charge to break the embargo and sell arms? Who is the leader of the pack? That is the first question.

The second one is, what diplomatic tools do we have at hand specifically where we can gently disabuse the Sinophiles in Europe from selling arms to the Chinese that in time will be inevitably, when the denouement with China comes, directed at the United States?

And perhaps Secretary Rodman would like to jump into that one as well.

Secretary BURNS. Thank you very much.

I think it is fair to say, if you look at current E.U. country arm sales to China, France is the leader by a healthy margin. But it is also true that both Italy and the United Kingdom have considerable arms business with the Chinese government as well.

On a political basis, the E.U. operates by consensus. So all of these countries have actually agreed—all 25—they have agreed to lift the embargo but they have not done so in part because of the concerns that we have raised.

But, again, there, I think it is obvious that a number of countries have been on the forefront of arguing for this. And it is very clear to see.

In terms of what we are doing with our diplomatic tools, when the president went to Brussels in February, his major argument, publicly as well as privately with the European leadership, was that we have a security obligation, the United States, we have had for 60 years, to be the guarantor of peace and stability in the region and that Europe has to take account of that. And that European actions that would undercut our ability to carry out that responsibility are not welcome. And he spoke in very strong terms about that.

And that has been our major line of argument with the Europeans. And I think that that has been the major reason why there has been a delay because it is a compelling argument and it is the same one that the Congress has made.

Secretary RODMAN. I was just going to reinforce the last point. Congress has provided a lot of leverage with H. Res. 57 and so forth, and I think the unity of the executive and legislative branches here has been pretty powerful political leverage.

Dr. SCHWARZ. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from Mississippi, Mr. Taylor?

Mr. TAYLOR. Thank you, Mr. Chairman.

I want to thank our participants on what has been a certainly interesting hearing.

I agree with what the Administration is trying to do in this instance. I do think it is fair to point out a lot of inconsistencies.

As of the end of January we owed mainland China \$194.5 billion; they own that much of our debt. Additionally we owed Hong Kong, which is now a part of mainland China, \$52.9 billion.

We have an Administration that I would think would object to Congress trying to repeal normal trade relations with China. I would be curious to hear your response to that, because I happen to believe the Chinese behavior was better when this nation was voting on an annual basis whether or not to give them normal, permanent, most favored nation status.

So I guess my first question to the State Department is, what would the Administration's response be if the Congress sought to repeal permanent normal trade relations with China, go back to an annual vote on most favored nation status?

Since we are asking the Europeans to modify their behavior, what are we as a nation willing to do?

Secretary BURNS. Congressman, we are asking the European Union to maintain the same policy that it has had with us in complementary arms embargo now for 16 years. So we are not asking the European Union to do anything that we are not presently doing.

And I think that is fair. It is a fair way to proceed in a democratic alliance of the type we have with NATO.

Mr. TAYLOR. If I may, is the gentleman aware that the Chinese People's Congress has recently issued a statement saying that they intend to reoccupy Taiwan by—what is the year, 2008, 2009—by force, if necessary?

Secretary BURNS. Congressman, we are aware that two weeks ago the Chinese parliament passed the so-called anti-secession law, which we believe is very much against the spirit of what should properly be the relationship across the Taiwan Straits, and that is the peaceful means of resolving disputes, not the threat of force or the use of force.

And we have spoken out very vigorously against that anti-secession act.

Mr. TAYLOR. And it is my understanding our nation does not have a mutual self-defense treaty with Taiwan, but there is a law on the books that would call for this nation to defend Taiwan if they are invaded by outside sources. Is that correct? Is that a correct statement of where it stands on the books?

Secretary BURNS. Congressman, yes, the Taiwan Relations Act governs American policy across the Straits. And we have very clear—I think we have had for a number of years a very clear view of what that act says and what its implications are.

Mr. TAYLOR. Given that a nation that we have passed a law saying we will defend is now being told by another nation to expect that it will be forcibly occupied in the next three or four years, would it not be prudent to possibly send that nation a message that, "We are going to start looking at our relations with you, at

our openness of our markets to you, on an annual basis rather than on a permanent basis”?

Secretary BURNS. Congressman, I think——

Mr. TAYLOR. Where you would do that on an annual basis is go back to an annual vote on most favored nation status. Question.

Secretary BURNS. Thank you.

Congressman, our view is that the anti-secession act has, in effect, backfired on the Chinese government, because it has had the impact of creating some doubt within the European Union about whether or not the embargo should be lifted. In other words, it has aided our arguments that the embargo should be maintained.

And our response to the anti-secession act was vigorous and very clear. And the Chinese government is aware of our clear interest in seeing that the disputes across the Taiwan Straits are handled only in a peaceful manner.

But in answer to the first question, the one that you have asked again, we are confident that the economic strategy that we have put in place with China still makes sense and that there will be no further need at this point to take any kind of punitive action in the economic realm to express our unhappiness with the anti-secession act.

Mr. TAYLOR. I am asking you as an official representative of the State Department here today for a response in writing to the question as to whether or not our nation should seek to repeal normal trade relations and go back to an annual vote on most favored nation status. Okay?

Secretary BURNS. I would be happy to take that and give you a response in writing. Thank you.

Mr. TAYLOR. Thank you very much, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank the gentleman.

The gentleman from New Jersey, Mr. Saxton.

Mr. SAXTON. Thank you.

First, let me apologize for arriving so late. I was over at the Joint Economic Committee talking about the economy of our country.

Let me ask just a very, I think, important but simple question. It seems to me that in considering the question of arms sales to China by our friends in Europe and other places in the world, including Israel—which I discussed with them two weeks ago—a very important concept for us to talk about and for representatives of those countries to understand is simply this—and I would like to get your response, particularly yours, Secretary Rodman.

In order to carry out our responsibilities to provide for the national security of this country and the free world, we devote a percentage of our gross domestic product to that purpose.

And it seems to me that each time one of our friends or allies transfers some technology that can be used for military purposes to China, it causes us to increase the percentage of our gross domestic product (GDP) that we must devote to national security. And that means our flexibility to do other things that are productive is lessened.

And so it seems to me that in their conscious effort to carry out military sales or sales of technology to China which causes us to

spend more on GDP, it works not only to our detriment but to their detriment as well.

And I just wondered if you would comment on that because it seems to me like it is a very important concept.

Secretary RODMAN. I think the analysis is basically right. It adds to our—instead of burden sharing—I think it was Congressman Lantos or someone who made the point, to the extent that they are adding to China's capability, it adds to our burden.

It is hard to ascribe motives to Europeans but I think they feel safe. I mean, they are maybe the main beneficiaries of the end of the Cold War. And because of geography they are not as close to China as we are and are not as sensitive perhaps to it as we are.

But I think that is the purpose of having a strategic dialogue which we are about to have with the Europeans so that their strategic perceptions and ours are coming closer; so that they understand the significance of China's rising military modernization and understand what it means not only to us but globally, and so that they will be sensitized to that concern that you have expressed and that we have expressed to them.

They are allies after all and they should not be playing balance-of-power games. They should be harmonizing their strategic perceptions with us.

And I think we think we have the ability to have a dialogue that makes that impression. And I think we have gotten the message across—we and you together have gotten the message across that this is a serious matter, this is of profound importance to the United States.

Mr. SAXTON. With regard to cooperation on military issues, particularly on weapons systems development, Joint Strike Fighter comes to mind.

It is a cooperative effort among countries. And I remember a year or so ago being in the U.K. and discussing with members of the U.K. Parliament the benefits of cooperating in those kinds of joint efforts. And certainly, we want to continue with those kinds of efforts.

But if we are compelled to spend more to meet an increased threat from China, it would tend to put a damper on our financial ability to work in those kinds of cooperative programs, wouldn't it?

Secretary RODMAN. This is an issue—we will have to satisfy ourselves of issues of tech transfer.

But I think it is too early to face that. I think if we have succeeded in slowing this down, then we are not yet at the point where we are going to call into question some of the important programs we have with Europe.

Mr. SAXTON. Secretary Burns, any comments on those questions?

Secretary BURNS. I very much agree with Secretary Rodman.

And I think that what is important as we look ahead is what he said first, and that is that the European Union accepts the fact that the United States has unique responsibilities in the Asia-Pacific region.

And there should be a strategic alignment, because we have a common interest in seeing a peaceful, constructive China emerge in the 21st century. That is a very important foreign policy aspiration

of our country, and it ought to be the same for the European governments.

So what we are about to undertake, beginning next week, is a new strategic dialogue with the European Union on Asia and the Pacific region. In an effort to try to get beyond some of more narrow arguments that those governments in Europe have made about why they should lift the embargo and to effect a closer strategic alignment as we move forward.

Mr. SAXTON. Mr. Secretary, thank you very much.

Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Ohio, Mr. Ryan.

Mr. RYAN. Thank you.

The CHAIRMAN. And then we are going to go to Mr. Sherman. And I think this thing will wrap up perfectly here.

I know you have to leave here in about 10 minutes or so.

Mr. RYAN. Great, thank you.

The CHAIRMAN. The gentleman is recognized.

Mr. RYAN. Thank you, Mr. Chairman.

I appreciate you being here.

I just want to associate myself with Mr. Weldon's comments from earlier—you may remember those comments—because I believe exactly what he said—but I want to, kind of, take it in a little bit of another direction—regarding currency manipulation, and what a difficult issue this has been for those of us trying to push some kind of reform.

And I find it difficult, as we sit here today and hear you say that our approach is balanced, but yet our trade relationship is not balanced, and then to say in some way we are being aggressive, I think is not in this reality. We are not being aggressive with currency manipulation. We have not done anything with currency manipulation.

And we are trying not to get into the debate of trade or jobs—and I am going to ask you a question about whether or not we should link permanent normal trade relations (PNTR) back with human rights.

Leave all that aside. We have an issue here—and Chairman Hunter has spoken about this and what they are doing with the dollars that they have.

If we do not address this currency manipulation issue, we are whistling in the wind.

And I would like some answer—and help me reconcile you saying you are being aggressive with no action coming out of the Administration on currency manipulation.

Secretary BURNS. Thank you very much.

As you know, the State Department does not have responsibility for that issue. I believe it would be the Treasury Department, so I would be happy to direct your question to them. Obviously a legitimate question, but—

Mr. RYAN. I appreciate that, Mr. Secretary.

Secretary BURNS [continuing]. Not part of our responsibility.

Mr. RYAN. But I think, whether it is commerce or the military or our overall political situation, China manipulating their currency in a way that allows them to buy weapons from the Rus-

sians, as Chairman Hunter said, or just to destroy our own defense industrial base here—someone tell me what the Administration wants to do.

We want to be helpful. Chairman Hunter and I have a bill that wants to provide tools for the Administration, but we need the Administration to be on board with us.

And I am not trying to be flip, but I have businesses in my district that are going to go belly-up in the next six months because of this issue. And then the issue behind that is the kind of military advantage they are gaining from us.

So it does not matter who answers, but somebody please tell me that the Administration wants to really be aggressive and give us some steps that we are going to take.

Secretary LICHTENBAUM. If I could briefly comment from the Commerce Department, I think that the Administration shares the goal with the Congress on the Chinese currency and the valuation of it. And I think the question is how best to achieve the goal.

You do not have, unfortunately, on this panel the people who have been directly involved in the development and setting of the policy with respect to the currency issue. I think it is hard for us to go further than that. But we would be very happy—

Mr. RYAN. I would think the Department of Commerce would have some concern maybe on the currency issue.

Secretary LICHTENBAUM. No, I think that is correct, but my responsibility—and I apologize for this, but at Commerce my responsibilities are security issues rather than trade issues.

Mr. RYAN. Well, let me ask you this question. Do you think that the currency manipulation is giving the Chinese government an advantage against the United States government because of what they are doing with their currency?

Secretary LICHTENBAUM. Against the United States government? You mean—

Mr. RYAN. I would like everyone to answer this: the Chinese government manipulating their currency. We all know that. We have all agreed on that. Is that giving the Chinese government a significant advantage, not only economically, but militarily, against the United States?

Secretary BURNS. Congressman, maybe I could start with this, if you would like. We want to be as helpful to you as we can, obviously.

The three of us are not responsible for the issue you are asking about. So if you would like an answer from the Administration, we would be very happy to get that.

Mr. RYAN. The Administration has said they want to handle this diplomatically. So I think all of you should have some concern here.

Secretary BURNS. We are not talking about a level of concern here. We are talking about the expertise that each of us has.

None of us represent departments that are centrally involved in that issue. But it is our responsibility to get you an answer to your question. We will be happy to do that.

But I would like to address the larger point which perhaps lies behind your question. And that is, it is a challenge for any administration, of whatever party occupies the White House, to look at a country like China, which is so enormous and so complex, where

so many of our interests intersect, and to try to have a policy that is effective on behalf of the American people.

And what I feel very confident in saying is that President Bush has put that kind of policy into place.

Our relationship with China is predicated, of course, on a need to have a peaceful relationship, to avoid conflict in the Asia-Pacific region, but to have a strong military that backs up that policy. And we have managed that.

It also entails working with China on vital issues to our national security, such as the North Korea situation, where China is part of the six-party talks.

On the other side of the ledger, however, it means that we have to be tough-minded when China crosses the line, as it did in 1989 in Tiananmen.

That is why we have——

Mr. RYAN. When was the last time——

The CHAIRMAN. If the gentleman will suspend for one minute, we have got one member left who needs to get a question in before this vote expires.

And let me just say, with respect to Mr. Ryan's initiative, and the initiative we are working on on currency manipulation, we hope that the Administration will be open to discussing this and to working with us.

And we also hope—you have said that our initiatives have been helpful with respect to the European arms embargo. We are going to have some more initiatives. And Mr. Hyde and I and our committees will be working on other initiatives. And we hope that they are well-received by your team, gentlemen, and by the Administration.

And it is clear that on this issue of the European arms embargo, we do speak with one voice. And I think it is fairly clear that both committees and Mr. Hyde and myself and the Congress and the House and Senate are strongly with the Administration in imposing this arms embargo.

So please take that as a closing message from us.

Let me go to Mr. Sherman for the last question, and we will——

Mr. SHERMAN. Mr. Chairman, we only have five minutes before a vote. We are, obviously, going to miss the vote if I say anything at all. Perhaps we can come back and——

The CHAIRMAN. Mr. Sherman, I bet you they are going to hold that vote for a couple of minutes. You have got at least, I would say, good three, four minutes to ask whatever you want.

Mr. SHERMAN. Okay. I will ask you folks to respond in writing.

Mr. Burns tells us that our economic policy toward China is effective. It is effective in creating the largest trade deficit in the history of mammalian life. Huge profits for extremely powerful importers which prevent us from re-examining the policy, cause us to ignore the currency manipulation.

Maybe you have not talked to those in the Administration with authority in this area; I have. And their real policy is, "We will do nothing that in any way affects the huge profits of these importers."

And that is why the government of China has huge dollars, not from trade surpluses with any other country, they run balanced

trade with the rest of the world—but \$100 billion to go shopping for arms.

In the area of dealing with Europe, for reasons I cannot understand, this Administration continues to deploy our troops in Kosovo without ever turning to our European allies and saying, “We will not be able to defend your continent if you are sowing the seeds of war in the Pacific.”

And that is what European arms sales to China would do. There is no purpose for the weapons that China is seeking to buy except one, and that is to invade Taiwan. Now, there is a subsidiary purpose, maybe it is just to threaten to invade Taiwan.

So for us to defend Europe while Europe profits by creating and sowing the seeds of a war which will cost American lives, and for our Administration to be too preoccupied to do anything about it, is at least somewhat shameful.

The question I would like you to ask is really advice for the Taiwanese government that finds itself with American support militarily but with an immobilized State Department, an immobilized approach toward dealing with Europe on this.

And that is should the Taiwanese government begin a massive advertising campaign in Europe to explain to the European people that the only purpose for these weapons is to kill people on Taiwan, and that perhaps European citizens will not want their governments to do that even if it is profitable for their corporations?

I do not know if we have time for an oral response except for a very quick one but can an advertising campaign—

The CHAIRMAN. Okay, we have got two minutes. So I think we will have to get a written response. I hope you have taken down notes.

And, gentlemen, take from this hearing that we do speak with one voice and we support strongly the Administration’s opposition to the lifting of the European arms embargo. And we hope that that message goes out to our allies and our adversaries.

Thank you very much.

And this hearing is adjourned.

[Whereupon, at 11:54 a.m., the committee was adjourned.]

A P P E N D I X

APRIL 14, 2005

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

APRIL 14, 2005

4/13/2005 7:30 PM

**“The National Security and Foreign Policy Implications for the
United States of Arms Exports to the People’s Republic of China
by Member States of the European Union”**

**Prepared Statement of
The Honorable Peter W. Rodman
Assistant Secretary of Defense for International Security Affairs
before the House Committees on
International Relations and Armed Services
Thursday, April 14, 2005**

Introduction

Chairmen, distinguished members of the two Committees, I would like to thank you for the opportunity to speak about the implications for the United States of European arms exports to China. This is an important concern of U.S. defense and security policy. It has implications not only for the military balance in the Asia-Pacific region, but also for our own defense cooperation with Europe. I commend the Committees for your interest in this issue.

Good Relations Do Not Depend on Arms Sales

During his recent trip to Europe, President Bush made our government's position clear: Any decision by the European Union to lift its embargo on arms to China -- imposed following the June 1989 Tiananmen crackdown -- is a bad idea and it would have serious consequences for U.S.-European relations. This has been our consistent position for over a year, since the EU first considered the matter. Japan has voiced similar concerns, because of the potential impact of lifting the embargo on East Asian stability. From the perspective of the Department of Defense, a lift of the EU embargo raises the prospect of European advanced technology aiding the military modernization drive of the People's Republic of China -- with direct implications for the safety of U.S. personnel whose mission it is to carry out the commitments the United States has made to allies and friends.

The United States seeks a strong, prosperous and transforming China, and we support strong economic and political ties between the EU and China. President Bush and other senior U.S. officials have declared, often, that we seek a cooperative, candid, and constructive relationship with Beijing. In this context, we are working to expand those areas in which we share common ground, while discussing frankly our differences as we try to narrow them. Indeed, U.S. relations with China have improved dramatically since 1989 -- even as we maintain our own prohibition on weapons transfers to China.

As part of the President's commitment to a constructive relationship with China, the Department of Defense has maintained -- and has expanded -- military-to-military relations with the Chinese People's Liberation Army (PLA). That relationship includes high-level visits by senior defense officials, port calls, and educational exchanges. However -- consistent with guidelines established by the National Defense Authorization Act of Fiscal Year 2000 -- we do nothing in these exchanges that could knowingly enhance PLA military capabilities. Indeed, our relationship with Beijing demonstrates that you can have good ties with China without selling advanced arms and technology.

Military Implications of an Embargo Lift

As our relationship with China has improved and continues to do so, the problem of tensions in the Taiwan Strait remains the most sensitive of bilateral issues. We have watched as China's armed forces have progressed rapidly. It was once common to hear that the PLA may have held quantitative advantages, but that its large force structure was backward and outclassed, generations behind the technological cutting edge. Fuelled by an impressive record of economic growth, China has been able to devote ever greater national resources to defense modernization. This has translated into double-digit percent annual increases in Beijing's officially announced defense budget almost every year for the past 15 years.

Last month, for example, the Chinese National People's Congress announced a 12.6 percent increase in the 2005 defense budget, to a total of about \$30 billion -- effectively doubling its announced budget from 2000. Even this figure, however, largely understates the large but difficult to calculate off-budget allocations -- which include, for example, foreign weapons acquisitions, subsidies to defense industry, and some defense-related research and development.

The PLA is no longer a third-world military force. In certain areas it is becoming a first-world military force -- in areas such as ballistic and cruise missiles, advanced fighters and multi-role aircraft, advanced submarines with anti-ship cruise missiles. It is now a force that is gradually tipping the balance of regional military power and posing a greater danger to U.S. military forces in a potential conflict. China is in no position to match the overall capabilities of the United States military, of course -- but it does not need to. China has already achieved a significant asymmetric capability that raises the risks to U.S. forces and thereby could change our calculus in a potential cross-Strait crisis. This is not only a future challenge; it is a problem here and now.

Many of the systems I mentioned are acquired by China from abroad. And that is a key point. Although Beijing is investing heavily in its indigenous weapons development, it remains heavily dependent on foreign suppliers of advanced weapons and technologies.

I would note that, even with the embargo, EU sales of military equipment to China increased eightfold from 2001 to 2003, from 54 million euro to 416 million euro (Jane's Defense Weekly, 30 March 2005).

Against this backdrop, a lift in the European arms embargo is likely to give China greater access to a host of technologies that could both enhance the weapon systems currently in PLA inventories and improve indigenous industrial capabilities to produce advanced weapons in the future. While the EU has stated that any lift of the embargo would produce no qualitative or quantitative increases in China's military capabilities, the tools at its disposal to enforce such a commitment, such as the Code of Conduct and so-called "tool box," remain inadequate. We can expect that China will cleverly and tenaciously exploit whatever new access it can get to technologies that advance the qualitative improvement of its forces.

Lifting the Embargo Sends the Wrong Signal

A European decision to lift the arms embargo would also send the wrong signal to China's leaders at a time when its position on Taiwan is taking a disturbing and destabilizing turn. China has, regrettably, never renounced the use or threat of force in connection with the Taiwan problem. During the same session in which it increased the defense budget, China's National People's Congress passed the so-called Anti-Secession Law, codifying the threat of non-peaceful means, under certain circumstances, to resolve the cross-Strait dispute. This law is not only unhelpful; it was passed at a time when the prospect of cross-Strait tension was actually declining. We have made clear to Chinese leaders that the only way to resolve the issue is through diplomacy and by mutual consent. Pursuant to the Taiwan Relations Act, The United States will view any Chinese use of force with grave concern.

The European Union imposed the embargo in 1989 after Tiananmen, as noted. Thus, there is a significant human rights dimension to this issue. Advocates of lifting the embargo say that China's human rights performance has improved. I would note, however, the reaction of China's leaders to the death last January of former Party General Secretary Zhao Ziyang, deposed and under house arrest since the Tiananmen incident: The Chinese Government reaffirmed its judgment that what it did in 1989 was correct.

R. Nicholas Burns
Under Secretary of State for Political Affairs
April 14, 2005
House Committee on International Relations
House Armed Services Committee

**"The National Security and Foreign Policy Implications for the United States
of Arms Exports to the People's Republic of China by Member States of the
European Union"**

INTRODUCTION

Chairman Hyde, Chairman Hunter, distinguished Members of the Committees, thank you for the opportunity to discuss with you the issue of arms exports to China from EU member states. This is my first testimony before your Committees. I look forward to working with you on this and other foreign policy issues.

This is an issue of central importance to U.S. interests in the Asia/Pacific region, and it intersects with our relations with many of our most important allies in Europe. That is why we have made our position clear to all parties – we strongly oppose the European Union lifting its embargo on arms exports to China. We believe that lifting the embargo would be detrimental to peace and security in the Asia/Pacific region, and that it would be the wrong signal to send given continued, serious human rights abuses taking place in China. That is why we have maintained our own embargo on China since the 1989 Tiananmen Square massacre, and why we will continue to urge the EU to maintain its embargo.

PEACE AND SECURITY IN ASIA

One of the central issues in this discussion is security in the Asia/Pacific region, where the United States has served as the guarantor of peace and stability since World War II. Maintaining this stability is in the clear and vital interest of both the United States and of Europe.

Today, we see China continuing a military buildup which is viewed as threatening by its democratic neighbors. We need to preserve peace and

security in the Asia/Pacific region, and we believe the EU's lifting of the embargo would negatively affect regional stability and America's security interests. As the September 2002 National Security Strategy of the United States makes clear, while U.S.-China relations are an important part of our strategy to promote a stable, peaceful and prosperous Asia-Pacific region, "there are, however, areas in which we have profound disagreements. Our commitment to the self-defense of Taiwan under the Taiwan Relations Act is one."

Our commitments on Taiwan are an area of particular concern when we consider the EU ending its arms embargo. Simply put, we do not believe cross-Straits relations would improve if China gains access to advanced weaponry. We are also concerned about protecting key U.S. military technologies that we share with European allies, should the EU lift the embargo. Likewise, we are concerned about China's record of proliferating weapons to Iran, Sudan, Burma and other states of concern.

As President Bush said on February 22 in Brussels, in the very heart of the EU, "there is a deep concern in our country that a transfer of weapons would be a transfer of technology to China, which would change the balance of relations between China and Taiwan." Lifting the embargo now could also be seen as an endorsement of China's recent anti-secession legislation, which codifies in law the use of non-peaceful means, under certain circumstances, to prevent Taiwan's independence.

ENGAGEMENT WITH CHINA

While our opposition to the EU lifting its embargo is firm, it also should be seen in the context of our overall relationship with China. During his visit to Beijing in 2002, the President stated that "China is on a rising path and America welcomes the emergence of a strong and peaceful and prosperous China." Secretary Rice reaffirmed that view recently in Tokyo, when she said "we want China as a global partner, able and willing to match its growing capabilities to its international responsibilities."

Economic liberalization and increased trade have opened a place for China in the international community, and we strongly support China's integration into that rules-based community – not just economic institutions, but diplomatic, peacekeeping, relief and reconstruction ones as well. China is also playing a vital role in hosting the Six Party Talks on the North Korean

nuclear issue, and we need China to remain engaged there to bring pressure to bear on North Korea.

Finally, I would note that the United States has a flourishing commercial relationship with China, despite the fact that we maintain a strict embargo on military sales to China. This, in itself, is an important fact for our European allies to appreciate.

HUMAN RIGHTS

As our relationship with China develops, however, we remain concerned by its human rights record. The United States and EU embargos were imposed in response to the Tiananmen massacre in 1989. The U.S. Government has stated repeatedly that we view our embargos as complementary, and that the underlying reason for their imposition remains valid.

As the State Department's Human Rights Report from 2004 makes clear, the human rights record of the Chinese Government remains poor and serious abuses continue. According to estimates by non-governmental organizations, hundreds of persons remain in prison as a result of the Tiananmen demonstrations. We remain very concerned about ongoing suppression of fundamental liberties, such as freedom of expression, religious practice and press, and judicial abuses such as arbitrary detention and torture.

OPPOSITION TO EU LIFTING EMBARGO

Given these security, proliferation and human rights concerns, we have made our case vigorously to EU member states that they should not lift their arms embargo on China. In my judgment, there were inadequate senior-level consultations with us by the Europeans before they embarked down this path in early 2004. But we quickly moved to engage them, and the President, Secretary of State Rice, former Secretary of State Powell, and Secretary of Defense Rumsfeld have raised this in clear terms with their EU counterparts.

During her first visit to Brussels as Secretary of State in February, Secretary Rice said that "we do have to worry about the military balance in the region and that we have concerns about technology and technology transfer." We have made this point in many NATO meetings in the last

several months, and this has featured in many of Secretary Rice's meetings with European allies. We have conducted joint State-Defense visits to twelve EU capitals to ensure they understood our concerns. We have made intelligence-based presentations to all EU member states in Brussels.

I would also like to thank Congress for its resolutions opposing a lifting of the EU arms embargo. I can assure you from my many discussions with our European allies that Congress' voice has been heard, and this has been a powerful and compelling argument with the EU. We especially appreciate the strong, bipartisan support for this policy by the members of these two Committees.

At every opportunity, we have given European governments a strong, consistent message that lifting the embargo would be a direct challenge to vital U.S. interests, and that doing so would undermine efforts to bring China's human rights practices into compliance with international standards. We have also received valuable support on this issue from Japan, which shares our concerns about the consequences of a lift.

One of the European responses to our arguments has been that it would substitute for the embargo a package of transparency measures, including improvements to the EU Code of Conduct on arms transfers. Our response is that there is no enforcement mechanism or objective measurement to ensure the Code will serve as a restraint. We welcome improvements to the Code of Conduct, but the fundamental nature of the Code would not change. In 2003, EU governments applying the Code of Conduct approved defense exports to China worth 416 million Euros. In our view, changing the Code is not the answer – maintaining and strengthening the EU embargo is.

Our efforts have had a positive impact. When the EU began considering lifting the embargo, most European commentators believed that a lift was inevitable and would be concluded by Summer 2004. Instead, we made U.S. security and human rights concerns known to EU members, and the EU took the time to consider the larger implications of lifting the embargo. We do not believe the EU is now close to a decision to lift. But we realize that we must keep this issue at the forefront of our agenda with Europe for some time to come.

The question remains why some in the EU still support lifting the embargo on China. Some EU states were supportive because they hoped that

this would result in improved access to the Chinese commercial market, whether or not they actually increased military sales to China.

Other EU governments have not been openly supportive of lifting the embargo but also have not actively opposed such an action. These states generally have not sold military items to China in the past and have no intention of doing so even without an embargo. Many of these states share our serious concerns about China's human rights record. Originally, the lift was presented as a political gesture, a part of the EU's agreed policy of building a better relationship with China. In fact, some members states have argued that lifting the embargo would not affect their policy of denying defense articles to China.

STRATEGIC DIALOGUE

We believe the EU has not made a compelling case for why the embargo should be lifted, and our government is united in the belief that there are compelling national security reasons for maintaining the embargo. We and the EU have a shared interest in maintaining regional peace and security and in promoting human rights in China. We must align and strengthen our export control regimes, so that we can limit sales to China that put these interests at risk.

What is now abundantly clear is that there is a great need to undertake a Strategic Dialogue with the EU on this issue. We will soon begin such a dialogue with the EU on the security situation in the Asia-Pacific region in general.

This will not be a negotiation over terms for lifting the embargo but a means of ensuring, among other goals, that EU members understand the real dangers to regional security that lifting the embargo would pose. It is also an opportunity to discuss ways of strengthening and harmonizing European export control regimes to track more closely with U.S. controls.

We will include in these discussions with the EU our concerns about current EU sales of military equipment to China. Several items that have been approved for sale, including fire control radar, aircraft engines, submarine technology and maritime search radar, seem inconsistent with the EU's Code of Conduct on military sales.

**Testimony of
The Honorable Peter Lichtenbaum
Acting Under Secretary for Industry and Security
United States Department of Commerce
Before the House Armed Services Committee
and the House International Relations Committee
on the "EU Arms Embargo Against China"**

April 14, 2005

Chairman Hunter, Chairman Hyde, Members of the Committees:

Thank you for the opportunity to testify today on the EU's arms embargo against China and the United States' position regarding the EU's possible lifting of this embargo.

The Administration is very concerned about the national security implications of sensitive technology transfers to China. Accordingly, the Administration is working hard to convince the EU member countries to refrain from lifting the arms embargo. The United States continues to oppose such action strongly. I also would like to take this opportunity to discuss current U.S. policy regarding dual-use exports to China.

The Most Sensitive Dual-Use Items and Technology Are Already Controlled for Export to China

The Administration's opposition to the lifting of the EU arms embargo is consistent with U.S. policy toward the export of sensitive dual-use items and technology to China. Indeed, the United States has an extensive body of law, regulation, and policy in place to control such exports and prevent diversion to Chinese military end-uses.

As background, the organization that I lead, the Department of Commerce's Bureau of Industry and Security, is responsible for implementing dual-use export controls. Dual-use commodities are commercial items that, while not designed for use as weapons, delivery systems, or for terrorist purposes, have the potential for these types of misuses. Sensitive dual-use items are on the Commerce Control List (CCL), which tracks, but also goes beyond, U.S. commitments under multilateral export control regimes. Items are included on the CCL after full coordination with the interagency community, including the Departments of State, Defense, and Energy.

BIS works with the interagency community (including the Departments of State, Defense, Energy, Homeland Security, and Justice) to promote and defend the national security of the United States. BIS's principal objective is to ensure that direct exports from the United States and reexports of U.S.-origin items from third countries are consistent with national security and foreign policy interests, without imposing unnecessary regulatory burdens on U.S. exporters or impeding the flow of legitimate trade. The ultimate goal is to prevent U.S.-origin items from falling into the hands of rogue nations, terrorists, and those who would use the goods and technologies against us and our allies.

Under current law and regulations, almost all exports and reexports of dual-use U.S. origin items to Chinese military end-users or end-uses require a license. BIS and its interagency export control partners carefully evaluate proposed exports of dual-use items to China on a case-by-case basis, taking into account the type of item to be exported, and the proposed end-user and end-use. Under our regulations, BIS does not issue licenses for sales of dual-use items and

technology to China if the item or technology will make a direct and significant contribution to the PRC's electronic and anti-submarine warfare, intelligence gathering, power projection, or air superiority. Further, BIS under this Administration does not approve licenses for military end-users or end-uses within China.

In the licensing process, BIS and other agencies evaluate the risk of diversion of the item to military or proliferation-related end-uses. If there are questions about the bona fides of the end-use/end-user, BIS conducts pre-license checks and post-shipment checks to reduce the risk of diversion of items and technology for an end-use other than the authorized end-use. In 2004, we reached an end-use visit understanding with China that has been very useful in mitigating this risk, by providing an effective mechanism to verify the bona fides of end-users and end-uses in China. Thus far, China has fully adhered to the terms of the end-use visit understanding.

The United States Strongly Opposes Lifting of the EU Arms Embargo Against China

For more than a year, members of the EU have raised the possibility of lifting the embargo on military sales to China that was imposed in the wake of the 1989 Tiananmen Square massacre. The United States has clearly and consistently opposed such action.

While we acknowledge efforts by European and Chinese officials to enhance their mutual ties and cooperation, we strongly believe that lifting the arms embargo is not warranted either by progress by China in the area of human rights or on security grounds. Indeed, we believe that lifting the arms embargo could have a destabilizing effect in the region. We have made these

concerns known to our European allies on multiple occasions. The President and Secretary of State Rice have raised it with their counterparts. Senior-level delegations from the State Department and the Pentagon have visited many EU countries to discuss this issue.

We know that the future of the EU arms embargo is still under consideration. The Administration will continue to discuss this important issue with EU governments to ensure that any decisions the EU takes will not undermine our shared goals of regional stability and respect for human rights.

The Administration appreciates the bipartisan congressional statements opposing the lifting of the arms embargo and making clear the consequences of such action. Such statements have made clear to our European allies the importance of this issue to the United States. Recent developments seem to suggest that our European allies are taking more time to carefully consider whether it is appropriate to lift the arms embargo at this time.

The United States will continue to make our case to our European allies against lifting the arms embargo. We will make clear that there could be significant implications for the U.S.-EU strategic and trade relationship if the EU were to lift this embargo.

Thank you.

**QUESTIONS AND ANSWERS SUBMITTED FOR THE
RECORD**

APRIL 14, 2005

QUESTIONS SUBMITTED BY MR. TAYLOR

Mr. TAYLOR. Given that a nation that we have passed a law saying we will defend is now being told by another nation to expect that it will be forcibly occupied in the next three or four years, would it not be prudent to possibly send that nation a message that, "We are going to start looking at our relations with you, at our openness of our markets to you, on an annual basis rather than on a permanent basis?"

I am asking you as an official representative of the State Department here today for a response in writing to the question as to whether or not our Nation should seek to repeal normal trade relations and go back to an annual vote on most favored nation status.

Secretary BURNS. We do not seek to repeal normal trade relations with China. China is currently our third largest trade partner, our fourth largest export market, and an important contributor to global economic growth. Removing normal trade relations with China puts at risk this vital economic relationship and cuts off our ability to work constructively with China on the full range of bilateral issues. It would also give China the ability to retaliate within the WTO by raising trade barriers that we have been working so hard to lower.

While there is still much to be done, we have made some important progress since China's WTO entry in December 2001. China has cut import tariffs by nearly 40%, virtually eliminated import licenses and quotas, relaxed ownership restrictions on foreign businesses operating in China, and allowed foreign firms to participate in many sectors in which they were previously prohibited, such as in the financial sector. U.S. exports to China grew by 81% in the first three years following China's WTO entry, outpacing U.S. export growth to the rest of the world.

Of course, there are still many areas of concern, including IPR enforcement, regulatory transparency, technical standards, and China's currency regime. We are engaged bilaterally and multilaterally to solve these problems, and are using the full range of tools at our disposal—high level consultations, WTO cases like the VAT semiconductor case in 2004, anti-dumping investigations, China-specific safeguards like the textile safeguards we had in place in 2004 and 2005, and daily engagement. China, at the highest levels, has affirmed its commitment to redress economic and trade imbalances, and we will continue to push China to further open its markets and comply with its WTO commitments.

QUESTIONS SUBMITTED BY MR. ROHRABACHER

Mr. ROHRABACHER. Has there been any examples of any businessmen that have been put in jail, incarcerated for sending technology like this, profiteering by sending weapons technology to communist China?

Secretary LICHENBAUM. In Fiscal Year 2005, BIS's Office of Export Enforcement obtained a total of 15 convictions for criminal violations of U.S. export laws related to illegal exports to China. Of these 15 convictions, five involved corporations, which received criminal fines ranging from \$1,000 to \$339,000, and ten involved individuals. Five of these individuals received sentences of incarceration, ranging from 6 months and 15 days to 46 months, as described below.

Qing Chang (Frank) Jiang: On May 9, 2005, Qing Chang (Frank) Jiang d.b.a. EHI Group U.S.A was found guilty of making a false statement to the U.S. Government concerning an export of national security controlled amplifiers to China. On October 3, 2005, Chang was sentenced to one year and one day in prison, three years' supervised release and a \$2,500 criminal fine.

Jian Guo Qu, Ruo Ling Wang, Ning Wen, and Hailin Lin: On September 30, 2004, Jian Guo Qu, Ruo Ling Wang, Ning Wen, and Hailin Lin were arrested on charges of conspiring to illegally export more than \$500,000 worth of controlled electronic components to China. All four individuals were incarcerated pending criminal conviction.

- On May 1, 2005, Jian Guo Qu, a citizen of the PRC, pled guilty to one count of conspiracy to illegally export dual-use semi-conductors and other electronic components from the United States to China without the proper export li-

censes from the Department of Commerce. On July 25, 2005, Jian Guo Qu was sentenced to 46 months' imprisonment, a \$2,000 criminal fine, two years' supervised release, and a \$100 special assessment.

- Also on May 1, 2005, Ruo Ling Wang, a citizen of the PRC, pled guilty to one count of falsifying and undervaluing a shipment of illegally exported electronics valued at \$11,000 from the United States to China in an attempt to avoid scrutiny or inspection. On July 25, 2005, Wang was sentenced to time served (six and a half months) and a \$1,500 criminal fine.
- On July 8, 2005, Hailin Lin pled guilty to conspiracy to violate the EAR and money laundering. On December 21, 2005, Lin was sentenced to forty-two months in prison and a \$50,000 criminal fine.
- On September 21, 2005, a jury convicted Ning Wen on nine counts related to these exports. On January 18, 2006, Wen was sentenced to 60 months' imprisonment, ordered to pay a \$50,000 fine, and given two years' supervised release. He also agreed to forfeit his interest in his U.S. home and \$329,000 in cash.

Zhaoxin Zhu: On May 6, 2004, Zhaoxin Zhu of Shenzhen, China pled guilty to conspiring to purchase controlled satellite and radar technology for illegal export to the PRC. Zhu had negotiated with undercover federal agents to purchase a variety of sensitive goods, including traveling wave tubes with satellite and radar applications, for export to China. On September 28, 2005, Zhu was sentenced to 24 months' imprisonment and three years' supervised release.

Charlie Kuan: On September 23, 2002, Charlie Kuan, the former president of Suntek Microwave, Inc. of Newark, California, pled guilty to charges that he illegally exported detector log video amplifiers (DLVA), items controlled for national security reasons, to a company in the PRC that was controlled by the Chinese government. On July 25, 2005, Kuan was sentenced to twelve months and one day imprisonment, two years of supervised release, and a special assessment of \$300.

Qing Chang (Frank) Jiang: On May 9, 2005, Qing Chang (Frank) Jiang, as the president of EHI Group USA, was found guilty of making false statements to U.S. Government officials concerning an export of national security-controlled amplifiers to the PRC. Although Jiang was acquitted of the illegal export charges, on October 3, 2005, he was sentenced to one year and one day imprisonment, three years' supervised release, and a \$2,500 criminal fine with respect to the false statements.

QUESTIONS SUBMITTED BY MR. SHERMAN

Mr. SHERMAN. In the area of dealing with Europe, for reasons I cannot understand, this Administration continues to deploy our troops in Kosovo without ever turning to our European allies and saying, "We will not be able to defend your continent if you are sowing the seeds of war in the Pacific."

And that is what European arms sales to China would do. There is no purpose for the weapons that China is seeking to buy except one, and that is to invade Taiwan. Now, there is a subsidiary purpose, maybe it is just to threaten to invade Taiwan.

The question I would like you to ask is really advice for the Taiwanese government that finds itself with American support militarily but with an immobilized State Department, an immobilized approach toward dealing with Europe on this. And that is should the Taiwan government begin a massive advertising campaign in Europe to explain to the European people that the only purpose for these weapons is to kill people on Taiwan, and that perhaps European citizens will not want their government to do that even if it is profitable for their corporations?

Secretary RODMAN. Taiwan is already pursuing discussions with the European Union (EU) on the implications of lifting the EU arms embargo on China. We encourage these discussions, which serve as an important complement to our efforts with the EU, not only as it pertains to the arms embargo but on the broader questions of East Asian stability and security.

The position of the Administration, as articulated by the President and numerous Administration officials, remains clear: We oppose lifting the EU arms embargo on China. China's decisions in early 2005 to proceed with the anti-secession law and to reaffirm the correctness of its decision to resort to force during the Tiananmen crisis—and the more recent resort to violence in response to protests in southern China—serve only as a reminder of the wrong kind of signal that a lift of the embargo would send.

We are not reassured by the EU's Code of Conduct and "toolbox" that we are told would substitute for the embargo. A lifting of the embargo is a political act which would inevitably lead to a loosening of restraints. We believe that China will exploit

any European opening to seek advanced military and dual-use technology to upgrade the quality of the systems it currently has and its ability to develop and produce advanced weapon systems in the future.

In this context, a lift of the EU arms embargo could accelerate the shifting of the cross-Strait military balance in Beijing's favor. Moreover, as we pointed out in the 2005 version of our Report to Congress on China's Military Power, long-term trends in China's military expansion could create capabilities posing a credible threat to modern militaries operating in the region.

That is why, beginning in May 2005, we opened a Strategic Dialogue with the EU in an effort to build a common strategic understanding of the requirements of security and stability in East Asia. At the same time, we have encouraged Taiwan and countries concerned with East Asian security, including Japan, to articulate their views directly to the European Union and with EU member states. We hope that these dialogues we and others—including Taiwan—have will serve to reinforce European restraints on the transfer of sensitive technologies to China.

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Secretary BURNS. The Secretary of State and other Administration officials have repeatedly made it clear to European Union and other European officials that the United States remains opposed to lifting of the European Union's arms embargo on China, which, like our embargo, was imposed in the aftermath of the 1989 Tiananmen massacre. We have continually expressed our concern about the impact a lift would have on regional stability in East Asia.

The United States has an abiding interest in the peaceful resolution of cross-Strait differences. Lifting of the EU arms embargo on China would not be conducive to promotion of cross-Strait dialogue or to peace and stability in the Taiwan Strait. We have also repeatedly explained to European counterparts that lifting at this time would send the wrong signal that the European Union is now less concerned with human rights in China.

We are confident that Taiwan authorities and other interested countries are in the best position to identify how to represent their concerns to European Union and other European officials. Taiwan authorities and representatives of concerned countries have expressed their views to the European Union.

Additionally, Secretary Rice in May 2005 introduced a US-EU Strategic Dialogue on East Asia. The Strategic Dialogue, which met again in November 2005 and held an experts working group in December 2005, is designed to improve understanding of strategic objectives in the East Asia region.

We will continue to urge the European Union to maintain its arms embargo on China by candidly voicing our concerns, deepening the level of US-EU communication on this and other issues of mutual strategic interest in East Asia, and encouraging Taiwan authorities and like-minded countries to express their concerns.